

**AGRICULTURE, RURAL DEVELOPMENT, FOOD
AND DRUG ADMINISTRATION, AND RE-
LATED AGENCIES APPROPRIATIONS FOR
FISCAL YEAR 2009**

TUESDAY, APRIL 8, 2008

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:06 a.m., in room SD-192, Dirksen Senate Office Building, Hon. Herb Kohl (chairman) presiding.

Present: Senators Kohl, Reed, Bennett, Cochran, Specter, and Craig.

DEPARTMENT OF AGRICULTURE

OFFICE OF THE SECRETARY

STATEMENT OF HON. ED SCHAFER, SECRETARY

ACCOMPANIED BY:

**CHUCK CONNER, DEPUTY SECRETARY
DR. JOSEPH GLAUBER, CHIEF ECONOMIST
SCOTT STEELE, BUDGET OFFICER**

OPENING STATEMENT OF SENATOR HERB KOHL

Senator KOHL. Hello and welcome to one and all. Today we begin hearings for the fiscal year 2009 budget. We have before us Secretary Schafer and other distinguished guests from the Department of Agriculture. As you know, this is our first budget hearing for the year.

Secretary Schafer, Dr. Glauber, and Mr. Steele, we want to welcome you before our panel. It is good to have you here today. I would also like to note that Dr. Glauber did receive his Ph.D. from the University of Wisconsin, which makes you a very smart man and a very intelligent man.

Before we get started with you, that is.

The President's budget includes fiscal year 2009 discretionary spending levels of \$17.3 billion for USDA, which is a decrease of over \$400 million from last year. We have to assume that you were told to hold the line on spending, but however, this budget, notwithstanding that, as you know, does not have very many highlights to it.

Although the WIC budget provides an increase of \$80 million, we are already hearing that up to an additional \$750 million could well be necessary and that number might go even higher.

CSFP is eliminated yet again. Although we are hearing calls from all over to fix the food safety problems, this budget provides no funding for additional inspectors or inspections.

Research is cut by over \$250 million. Conservation is cut by over \$140 million. Scores of rural development programs vital to America are simply abolished. Food aid requests remain stagnant, although the need is clearly growing, and a looming Farm Service Agency IT disaster is not addressed.

As we move through the appropriations process, I pledge to you that we will maintain a constructive dialogue with USDA. We have many challenges this year, and I hope to work closely with the Department so we can produce a constructive and a responsible bill.

I am going to turn to my very good friend and the ranking member, Senator Bennett, but first I want to thank publicly Senator Bennett and his staff for the helpful and bipartisan manner in which we have worked over the past few years. And I assume him and all members of the subcommittee that that very constructive working relationship will continue.

So, Senator Bennett will now make an opening statement, and then we will turn to other members, if they arrive, for their opening statements. Following that, we will be pleased to hear from Secretary Schafer.

Members will have 1 week to submit questions for the record, and we will act quickly on their questions.

Now, Senator Bennett.

STATEMENT OF SENATOR ROBERT F. BENNETT

Senator BENNETT. Thank you very much, Mr. Chairman, not only for your leadership, but for your kind words. We have worked together in a bipartisan fashion and I hope for the benefit of agriculture in the country.

I want to welcome Secretary Schafer back to the subcommittee and those joining him, Deputy Secretary Conner and Chief Economist Glauber, and Budget Director Steele.

Dr. Glauber, congratulations on your appointment. I enjoyed the analysis provided by your predecessor, Dr. Keith Collins, who retired earlier this year, and look forward to hearing from you and working with you.

The atmosphere in which we find ourselves with respect to this budget hearing is that food prices are rising sharply throughout the whole world and causing unrest in certain places, not excluding our own country. Decades of nearly stagnant farm gate prices have led us to anticipate stable prices in the marketplace, but farmers are now enjoying record high commodity prices at the same time as costs for feed, fuel, and fertilizer are also reaching record highs.

Biofuel production continues to grow. This year roughly a third of the U.S. corn crop will be used for biofuel production. And that, too, helps increase the price for farmers.

But the other side of it, which may have serious problems for the rest of us, is that the cost of WIC, food stamps, and other feeding programs keeps going up. I am not sure these are issues that are easily resolved, and I hope we can talk a little bit about them this morning.

Now, we have had food recalls and people have been concerned about the safety of their food supply. I appreciate your quick response to the humane slaughter violations in the Hallmark/Westland case, Mr. Secretary, but as a subcommittee, we will continue to fully and properly fund and monitor the activities in the area of food safety. We want to make sure the Department has all of the resources that it needs, but we recognize that everybody else, producers, processors, suppliers, importers, retailers, and so on, must work together in conjunction with the regulators to make sure that the consumers have no reason to question the safety of our food supply.

Mr. Secretary, you are defending a budget you did not prepare by virtue of the timing of your entry into your present position, but you are accompanied by Deputy Secretary Conner who did help prepare this. So I am confident that between the two of you, you will be able to give us a full explanation of where we are and how we got there. And I look forward to hearing your thoughts.

Thank you, Mr. Chairman.

PREPARED STATEMENT

Senator KOHL. Thank you very much, Senator Bennett. And now we will hear from you, Mr. Secretary.

The subcommittee has received a statement from Senator Johnson which will be placed in the record.

[The statement follows:]

PREPARED STATEMENT OF SENATOR TIM JOHNSON

Thank you, Chairman Kohl and Ranking Member Bennett, for holding today's Agriculture, Rural Development, Food and Drug Administration, and Related Agencies subcommittee hearing to discuss the state of fiscal year 2009 appropriations for agriculture. Your leadership is invaluable and appreciated during this process. Thank you also, Secretary Schafer, Deputy Secretary Conner, Chief Economist Dr. Glauber, and Budget Officer Steele, for your time this morning. We appreciate your coming to the Hill to discuss appropriations for this next fiscal year for the United States Department of Agriculture.

As members of the Senate Appropriations Committee, we have an obligation to ensure that our Federal programs function as both intended and promised in enacted legislation. Programs addressed by this subcommittee specifically should strive to ensure that our Nation's rural and agriculture communities remain intact, and that we provide opportunity in those regions that are struggling. I'm sure that many subcommittee members' home States are impacted by rural out-migration as significantly as mine is, and population loss is often irreversible. The Department of Rural Sociology at South Dakota State University released an analysis in 2006 that addressed population changes. The study's findings included an 8.0 percent gain in Southeastern Minnehaha County from 2000–2005, which includes Sioux Falls, the largest city in South Dakota. Minnehaha County's gain presents a stark contrast to rural Harding County, located in the Northwest corner of South Dakota, which experienced a 10 percent drop in population over that same time. Rural communities are impacted dramatically by the shortfalls or inadequacies of each fiscal year's budget proposals, and as a member of this subcommittee I will continue to fight to keep our rural communities vibrant.

There are many areas in the President's proposed budget for fiscal year 2009 that are enormously concerning, and I do not believe that the administration's proposed budget can accomplish the intended goal of our Federal programs. I will work with my colleagues to make these areas whole, and I would like to touch on just a few of those programs today.

The 2002 farm bill included an 80 percent increase in Federal dollars for conservation programs over previous measures. However, this administration's most recent suggestion for conservation funding includes a 20 percent reduction. In the wake of the Department of Agriculture's handling of the Conservation Reserve Program with expiring 2007–2010 contracts, which has discouraged participation in the

program, this additional proposal is counterproductive for conservation efforts in South Dakota and nationally.

The President's budget proposal includes eliminating the Resource, Conservation and Development (RC&D) program entirely. The President has clearly not been a fan of this program, proposing substantial reductions consistently for several years. The RC&D program encourages economic growth in rural areas that aren't privy to the economic stimulus of urban areas. For every \$1 invested into this program by the Federal Government, the program generates an impressive \$7.50 in return. I have worked to restore this program in the past, and I will continue to support full funding for this program.

For the third year in a row, this administration has attempted to slash funding for the Commodity Supplemental Food Program (CSFP). Elimination of this program would cause nearly half a million low-income seniors and children to be cut off from nutritious commodities. In my home State, nearly 300,000 senior citizens rely on the nutritious meal boxes CSFP provides each month. The Bush administration proposes simply transferring CSFP recipients to the food stamp program. However, food stamp benefits alone are not sufficient to meet the dietary needs of most CSFP participants. I will again fight to reinstate funding for CSFP and ensure that this important program receives meaningful dollars to support their growing needs.

I have heard from many South Dakotans who share in my concern for the President's proposed budget, and I appreciate the opportunity to share some of these concerns. I will continue to work for the strongest possible agriculture budget we can achieve in Congress, which is simply what America's farmers and ranchers deserve.

STATEMENT OF SECRETARY ED SCHAFER

Secretary SCHAFER. Thank you, Mr. Chairman and ranking member. I am pleased to appear before the committee, and thank you for the opportunity to discuss our fiscal year 2009 budget for the Department of Agriculture.

As was mentioned, I am joined at the table here by my esteemed colleagues who can provide the expertise and background to your questions.

I am grateful that the President has provided me this opportunity to serve the people of the United States, and I will do my very best to promote, preserve, and enhance the mission of the United States Department of Agriculture.

Before I discuss the 2009 budget, I would like to thank the committee for the opportunity to appear before you in late February to testify on the inhumane handling of cattle at the Hallmark/Westland Meat Packing Company. At that hearing, I described actions that we took immediately. Also, soon after learning of the situation, we asked the Office of Inspector General to immediately begin an investigation into the matter.

Since that hearing, we have taken additional actions, including auditing 18 beef processing facilities that supply products to the Department's nutrition assistance programs, including the school lunch program. In addition, FSIS has directed inspectors to increase the amount of time spent on humane handling surveillance.

I have been concerned that some Members of Congress and some of the media have mischaracterized this recall as a food safety issue. I again want to assure our citizens that this class II recall does not pose an imminent threat to our food supply.

As we learn more from the ongoing investigations, we look forward to keeping the committee well informed.

Now I would like to discuss the USDA and our 2009 budget. As I mentioned earlier, I am very pleased to have been given the opportunity to lead this great Department at a time in history when the agriculture economy has never been stronger. Market prices

are at or near record levels for virtually all of our major crops and net cash income for 2007 will exceed \$87 billion, which is up almost \$20 billion from last year.

I look forward to working with you, Mr. Chairman, as well as your other members, during the 2009 budget process to ensure that we have the resources needed to continue making a positive impact on the economic well-being, safety, and health of all Americans.

Let me start by saying we are proud that USDA's 2009 budget advances the President's goal of achieving a balanced Federal budget by 2012, also while encouraging our economic growth and enhancing our security.

As was noted, I am new to the Federal budget process, but I have faced many challenges in developing budgets at a State level. As a Governor for 8 years, I was required to make tough decisions to balance our State budget as required by law. Today at the Federal level, we face similar challenges to keep spending under control and meet the President's deficit reduction goals.

The USDA's total budget authority request pending before this committee proposes an increase from \$88 billion in 2008 to \$93 billion in 2009, while the discretionary appropriation request is \$17.4 billion. That is a decrease of approximately \$400 million from the 2008 enacted level.

The budget before you proposes to terminate \$1 billion in lower-priority activities, earmarks, and programs that duplicate other activities. I would like to point out that even within this tight overall budget framework, we request that additional funds be allocated to food safety, nutrition, and high-priority bioenergy research.

The budget requests nearly \$1 billion in appropriated funds for the Food Safety and Inspection Service, a record level of funding. This funding will ensure that the demand for inspection is met, and we will build on our success in improving the safety of our food supply. We will continue to pursue the development and implementation of inspection systems that are better grounded in science and that can increase the speed in which we detect and respond to outbreaks of food-borne illnesses.

The budget supports increased participation and food costs for the Department's three major nutrition assistance programs: food stamps, WIC, and child nutrition. I would like to mention, Mr. Chairman, that we are monitoring the WIC situation very carefully, both food costs and participation levels, and I know that you have been as well. We will keep the committee informed of the trends and work with you to ensure that this important program is appropriately funded.

The budget includes additional funding for bioenergy research aimed at increasing the efficiency of converting cellulose to biofuels. Under the National Research Initiative, USDA will support efforts to develop and enhance feedstock sources and biocatalysts for cellulosic conversion.

The Agricultural Research Service will focus on developing sustainable, efficient production of energy from a variety of agriculture products and from enabling on-farm processing for cellulosic feedstocks.

The budget also provides support to ensure that critical program delivery systems are maintained so the infrastructure is in place

that we can build upon to meet the demands of implementing a new farm bill and addressing other needs in rural America.

The budget proposes the funding needed to increase the enrollment of our conservation programs to record levels of acres. These programs are essential to protecting and preserving our land, our water, and our air resources for future generations.

The budget provides \$15 billion for rural development. This level of support maintains USDA's role in financing rural home ownership, rural utilities, and business and industry. It also includes \$1 billion to protect the rents of low-income rural residents.

Within this program level, we are proposing to shift the emphasis from grants to loans and from direct loans to loan guarantees. These shifts permit us to continue to address the priorities but at a lower cost to the taxpayer.

All Americans and particularly our farmers and ranchers know the importance of a healthy economy. It creates jobs and it boosts incomes. Keeping America's agriculture strong means we must continue to build on our recent successes in trade. We are forecasting record agriculture exports of \$101 billion in 2008, an increase of over \$19 billion from 2007. And as you know, agriculture is the sector of the economy that provides a positive trade balance.

USDA has worked aggressively to open new markets for America's farmers and ranchers, and those efforts are showing results. Progress was made in our efforts when the President signed the trade promotion agreement with Peru last December.

Congress can continue to help create jobs and economic opportunity by passing the Free Trade Agreements with Colombia, Panama, and South Korea. As you know, the President yesterday sent up the signed Colombia FTA for ratification, and we urge Members of Congress to vote for American agriculture and pass this legislation.

We also need to secure a new farm bill. More than a year ago, the administration announced a comprehensive set of farm bill proposals for strengthening the farm economy in rural America. These proposals represent a reform-minded, fiscally responsible approach to supporting America's farmers and ranchers and our rural communities.

Because of that, we are still working with Congress to shape the farm bill, but as of today, we do not have new legislation in place. The President's 2009 budget for USDA is based on the provisions of the 2002 farm bill and reflects the administration's proposals for change. We expect, however, some changes will be made to the budget estimates when the new farm bill is finally passed. I am still confident that that will happen.

PREPARED STATEMENTS

In closing, I would like to emphasize that this budget provides the critical resources we need to keep our agriculture economy strong, and it is in keeping with the President's policy of funding the highest priorities while restraining spending.

I look forward to working with the members of the staff and the committee. We will now be pleased to take your questions.

[The statements follow:]

PREPARED STATEMENT OF ED SCHAFER

Mr. Chairman and distinguished members of this committee, I am pleased to appear before you to discuss the fiscal year 2009 budget for the Department of Agriculture (USDA).

I am joined today by Deputy Secretary Chuck Conner, Scott Steele, our Budget Officer; and Joseph Glauber, our Chief Economist.

Before I begin to discuss the fiscal year 2009 budget, I would like to provide you an update to my February 28 appearance before this committee to testify about the inhumane treatment of cattle at the Hallmark/Westland Meat Packing Company in California. As you know, on January 30 when the Humane Society of the United States released the video from this facility, I asked the USDA Office of Inspector General to immediately begin an investigation into the matter. Since that time, USDA's Food Safety and Inspection Service (FSIS) has implemented a series of interim actions to verify and thoroughly analyze humane handling activities in federally inspected establishments. FSIS has also audited all 18 beef slaughter plants that supply beef to the Federal nutrition assistance programs. I have been concerned that some Members of Congress and some of media have mistakenly characterized this recall as a food safety issue. I again want to assure our citizens that this class II recall does not pose any eminent threat to our food supply. Therefore, once this review has concluded, we will have additional information that, along with the results of the additional verification activities and audits, will determine the actions for FSIS oversight, inspection and enforcement that may be required. We will continue to keep the committee informed of all developments and will report back to the committee on our actions.

As I previously mentioned, it is a pleasure to come back before this committee today, this time to discuss the President's 2009 budget request for the Department of Agriculture. I come from an agriculture State and understand the important role the Department plays in the lives of many Americans. I look forward to working with you, Mr. Chairman, as well as the other members, during the 2009 budget process to ensure that we have strong programs that serve not only U.S. agriculture, but a broad spectrum of rural residents and consumers. By continuing the effective cooperation between this committee and the Department, we can build a stronger America.

After reviewing the record, I am proud to report that the Department has made significant progress in achieving its goals to improve the rural economy, strengthen U.S. agriculture, protect America's natural resources, and improve nutrition and health. Specifically, I would like to note:

- Under President Bush's economic policy, rural America and U.S. agriculture has prospered.
- Renewable energy production continues to grow and is contributing to the energy security of the United States as well as improving the farm economy.
- U.S. agricultural exports were at a record level of \$82 billion in 2007, the fourth record year in a row, and are now projected to set another record of \$101 billion during 2008. This would be an unprecedented increase of \$32 billion in just the last two years.
- USDA continues to pursue the President's trade agenda that will create new market opportunities overseas and ensure the United States remains a leader in a rules-based global trading system. In this regard, we are continuing our efforts to achieve a successful conclusion to the Doha Round of multilateral trade negotiations—one that will provide fundamental reform of agricultural trading practices and spur economic growth and development.
- In the future, as in the past, our long-term economic growth will be enhanced by supporting international trade, by opening world markets to U.S. goods and services and by keeping our markets open. Progress was made in our efforts to remove trade barriers and ensure a level playing field for U.S. farmers and ranchers when the President signed the Trade Promotion Agreement with Peru last December. Congress can continue to help increase jobs and economic opportunity by passing the pending Free Trade Agreements with Colombia, Panama and South Korea.
- The Department continued its efforts to regain our beef export markets. We have reopened or maintained the markets in over 40 countries that closed or threatened to close their borders to U.S. beef products after the first detection of BSE. Recently, Peru, Colombia, Panama, the Philippines, Indonesia, and Barbados have removed their remaining restrictions for beef and beef products in accordance with international guidelines.
- In December 2007, the Department made the first major revision of the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) food

package in nearly 30 years. The changes take into account an improved understanding of nutritional requirements as well as the changing profile of supplemental nutrition needs of WIC's diverse population.

- Actions were taken to improve the safety of meat, poultry, and egg products, by identifying contamination earlier and reducing the exposure to foodborne pathogens.
- The 2006 supplemental funding provided the resources for USDA to work with domestic partnerships to prepare for a potential influenza pandemic. Through these efforts, we have played a leadership role in the worldwide effort to stop the spread of the H5N1 virus overseas and have increased our preparedness to deal with an outbreak should one occur.

In 2007, the administration announced a comprehensive set of farm bill proposals for strengthening the farm economy and rural America. We are continuing to work with the Congress to formulate a new farm bill. The enactment of the new farm bill may affect some of the 2009 budget estimates depending on specific provisions.

2009 Budget

Although I did not participate in the development of the 2009 budget, Deputy Secretary Conner conducted an in-depth review of USDA's budget and program performance in order to develop a budget that meets the administration's 2009 budget targets and contributes to the President's policy of reducing the deficit and balancing the Federal budget by 2012. Tough choices had to be made to keep spending under control and achieve the President's deficit reduction goals. Therefore, this budget funds the Department's highest priorities, while reducing or terminating duplicative or lower priority programs, including earmarks. I believe this is a responsible budget that funds critical programs and priorities and focuses efforts on programs that work and achieve results. Key priorities in the budget include:

- Reducing trade barriers and expanding overseas markets;
- Increasing funding for bioenergy research in support of the President's goal for achieving energy independence;
- Supporting policies that enhance job creation, improve rural infrastructure, and increase homeownership opportunities;
- Ensuring Americans continue to enjoy a safe and wholesome food supply;
- Protecting agriculture from diseases and pests;
- Increasing funding for our major nutrition assistance programs;
- Providing for a record number of acres in conservation programs; and
- Carrying out high priority basic and applied sciences that provide the technology and information necessary for the development of innovative solutions facing American agriculture.

The USDA's total budget authority request pending before this committee proposes an increase from \$88 billion in 2008 to \$93 billion in 2009, while the discretionary appropriation request is \$17.4 billion, a decrease of approximately \$400 million below the 2008 enacted level. The discretionary appropriation request is based on the 2008 enacted level.

I would now like to focus on some specific program highlights.

Food and Agriculture Defense Initiative

USDA continues its vigilance in ensuring the safety of our food and agriculture system. The Department is a strong partner in the administration's efforts to prepare for any potential bioterrorist attack. We are working to ensure an appropriate government response to a wide array of threats.

To protect American agriculture and the food supply from intentional terrorist threats and unintentional pest and disease introductions, the budget proposes \$277 million for USDA's part of the President's Food and Agriculture Defense Initiative. Funding for on-going programs is \$264 million, an increase of \$81 million from the 2008 level. Of the total amount for on-going programs, an increase of about \$14 million for Food Defense would enhance research to safeguard the Nation's food supply from foodborne pathogens and pathogens of biosecurity concern. For Agriculture Defense, the budget includes an increase of about \$20 million for research to improve animal vaccines and diagnostic tests. An additional \$47 million would be used to improve USDA's ability to safeguard the agricultural sector through enhanced monitoring and surveillance of pest and disease threats, improve animal identification, strengthen response capabilities, and other efforts, such as an expansion of the National Veterinary Stockpile.

In order to keep USDA in the forefront of avian disease research, the budget requests \$13 million to proceed with the design and planning of the Biocontainment Laboratory and Consolidated Poultry Research Facility in Athens, Georgia. This fa-

cility is critically needed to conduct research on exotic and emerging avian diseases that could have devastating effects on animal and human health.

Food Safety

One of the Department's top priorities is to ensure the safety of our food supply. The 2009 budget requests record funding of nearly \$952 million, an increase of about \$22 million over 2008, for FSIS to protect the Nation's supply of meat, poultry and egg products. About 80 percent of the FSIS funding goes for staff pay for Federal and State inspection programs to meet the demand for inspection services. With this funding, in addition to providing necessary food inspection, FSIS will continue to develop the food safety infrastructure to ensure that inspections systems are better grounded in science and inspector observations and data are captured and used in a timely manner. The objective is to reduce the risk of foodborne pathogens in meat, poultry and processed eggs and consequent infection.

The budget estimates that \$140 million in existing user fees for voluntary inspection will be collected. We will submit authorizing legislation to Congress to expand these collections, adding another \$96 million in new user fees. These fees will be used to offset needs in 2010, so they have no direct effect on 2009. The proposed legislation will authorize a licensing fee projected to collect \$92 million from meat, poultry, and egg products establishments based on their volume. An additional \$4 million would be collected from establishments that require additional inspection activities for performance failures such as retesting, recalls, or inspection activities linked to an outbreak.

Farm Program Administration and Agriculture Credit Programs

The budget requests \$1.5 billion for the Farm Service Agency to deliver farm programs. This level of funding will support approximately the same number of staff years as in 2008. The budget includes funding to support on-going operational needs based on current programs and the current delivery system.

USDA's farm credit programs provide an important safety net for farmers by providing a source of credit when they are temporarily unable to obtain credit from commercial sources. The 2009 budget supports about \$3.4 billion in direct and guaranteed farm loans. The 2009 budget proposes loan levels that generally reflect actual usage in recent years.

Crop Insurance

Crop insurance is designed to be the primary Federal risk management tool for farmers and ranchers. In 2009, crop insurance is expected to provide coverage for nearly \$72 billion in risk protection, more than double the amount of coverage provided as recently as 2000. This growth has been accomplished, in part, through the development of new and innovative plans of insurance. These innovations have expanded coverage to new crops or improved the coverage available under existing policies.

Over the years, Congress has challenged USDA to expand the availability of crop insurance to under-served commodities, in particular, to livestock and pasture, rangeland, and forage. Our Department is meeting that challenge. Currently, the crop insurance program offers revenue protection for swine, fed cattle, feeder cattle and lamb. In 2007, the crop insurance program began offering two innovative pilot programs covering pasture, rangeland, and forage. The programs proved to be highly popular with farmers and ranchers and, in 2008, the pilot area is being expanded to provide additional information on program performance.

For 2009, the budget re-proposes legislation to initiate a small participation fee in the Federal crop insurance program to fund modernization and maintenance of a new information technology (IT) system. Modernization of the IT system would improve program efficiency and provide the capacity needed to keep pace with the ever expanding workload for developing new crop insurance products. The fee would generate about \$15 million annually, which would initially supplement the annual appropriation to modernize the IT system. However, in future years, the fee would replace appropriated funding for IT maintenance. Based on current program indicators, we estimate that the fee would amount to about one-quarter cent per dollar of premium sold. In addition, the budget proposes to expand on language included in the 2008 Appropriations Act by including IT modernization as an authorized purpose for mandatory funding already provided under the Federal Crop Insurance Act. Either approach could be implemented without increasing the Federal budget deficit.

International Programs

Expanding access to overseas markets and securing a level playing field are critical for the continued prosperity of America's farmers and ranchers. Future growth

in demand for our agricultural products is primarily going to occur overseas, particularly in developing countries which are experiencing rapid economic growth and rising incomes. We must, therefore, ensure that our producers and exporters have the tools they need to be competitive in a rapidly expanding global marketplace.

Our 2009 budget proposals support our continued commitment to opening new markets and expanding trade. Increased funding is provided for the Foreign Agricultural Service (FAS) to maintain its overseas office presence and continue its representation and advocacy activities on behalf of American agriculture.

For the foreign food assistance programs, the budget continues to place the highest priority on meeting emergency and economic development needs of developing countries. The 2009 request for appropriated funding for the McGovern-Dole International Food for Education and Child Nutrition Program is \$100 million. This level will allow USDA to extend school feeding and educational benefits to about 2 million women and children during 2009. The program is helping children in countries with severe educational and nutritional needs. In recent years, more than 15 million children throughout the world have received benefits from the McGovern-Dole program and its predecessor, the Global Food for Education Initiative.

The budget requests appropriated funding of \$1.2 billion for the Public Law 480 Title II program, which provides emergency relief needs and addresses the underlying causes of food insecurity through non-emergency programs. In addition, to help improve the timeliness, efficiency, and effectiveness of the U.S. Government's response to food needs overseas, increased flexibility is requested in the purchasing of Title II commodities. As the President said in his State of the Union message, this flexibility is important to help break the cycle of famine. In countries like Bangladesh, this authority would have allowed us to provide more assistance, quicker, to those affected by the cyclone several months ago.

The budget requests funding of \$12.5 million in the Office of the Secretary to support the Department's efforts to assist in agricultural reconstruction activities in Afghanistan and Iraq. USDA is providing technical advisors assigned to the Ministry of Agriculture in Iraq, who are assisting in agricultural economics and planning, soil and water policy, extension, and food safety and animal inspection. This collaboration supported the development of the first national strategic plan for agriculture under the new government. Other USDA agricultural advisors are serving on the Provincial Reconstruction Teams (PRTs) working in the rural provinces of Afghanistan and Iraq on activities such as soil and water conservation, irrigation and water management, grain and seed storage, post-harvest loss reduction, marketing system improvements, and livestock health, nutrition, and breeding. These advisors are providing much needed assistance in addressing a wide range of problems brought on by years in some cases decades, of neglect and mismanagement in the agricultural sectors of these two countries. Additional funding will be needed for USDA to continue to be a key player in these areas.

Conservation

USDA fosters environmental stewardship through conservation programs supported with appropriated and mandatory CCC funding. Since 2001, USDA has provided assistance to farmers and ranchers resulting in conservation on more than 130 million acres of land.

The 2009 budget reflects a strong commitment to conservation and includes nearly \$4.6 billion in mandatory funding. Of this amount, \$775 million is needed to support the Administration's Farm Bill proposals. This funding will be allocated among the various conservation programs described below when new program levels are established by the Farm Bill.

Within the total amount of mandatory funds, the budget proposes \$181 million for the Wetlands Reserve Program (WRP). The projected WRP enrollment for 2009 is approximately 100,000 acres, and will bring the total acreage enrolled in the program to 2,275,000 acres, the maximum level authorized by the 2002 Farm Bill. The WRP is the principal support program of the President's goal to restore, protect, and enhance 3 million acres of wetlands by 2009. The Administration's Farm Bill proposals for WRP would provide the funding necessary to achieve an annual enrollment goal of 250,000 acres.

The Conservation Reserve Program (CRP) accounts for more than half of the mandatory funds with total funding of just under \$2 billion. Enrollment in CRP is expected to decline by about 2 percent to 34.2 million acres in 2009 due to expiring contracts and the conversion of farmable land to crop production. In addition, funding for the Environmental Quality Incentives Program (EQIP) will increase by \$50 million to just over \$1 billion to protect 17.5 million acres in 2009.

The budget includes \$360 million for the Conservation Security Program (CSP). This level of funding is expected to support almost 25,400 contracts signed in prior

years, which cover 20.4 million acres. The Administration's Farm Bill proposals would increase funding for these programs to enroll and treat more acres. In addition, these proposals would reduce the complexity of conservation programs to encourage greater participation.

The 2009 budget includes \$801 million in discretionary funding for on-going conservation work. This level of funding supports programs that provide the highest quality technical assistance to farmers and ranchers and address the most serious natural resource concerns. The budget includes savings of \$136 million from the elimination of funding for earmarked projects, duplicative programs, and programs that do not represent a core responsibility of the Federal Government. No funding is proposed for the Resource Conservation and Development Program and the Watershed and Flood Prevention Operations Program.

Rural Development

USDA's Rural Development (RD) programs support the quality of life and economic opportunities in rural America by providing financial support for housing, water and waste disposal and other essential community facilities, electric and telecommunication facilities, broadband access, and business and industry. This support includes direct loans and grants and guarantees of loans made by private lenders.

The 2009 budget supports a program level of \$14.9 billion for the RD programs. This level is similar to the level requested in the 2008 President's budget, but is about \$3.6 billion less than the amount appropriated for 2008. The difference is due primarily to a reduction in electric utility loans and the elimination of direct loans in favor of loan guarantees for single family housing. The budget supports shifting resources to address the highest priority programs.

The 2009 budget includes almost \$1 billion for rental and voucher assistance to protect the rents of 230,000 low-income households. This is \$518 million more than the amount appropriated for 2008. Of this amount, \$100 million is for vouchers that will promote choice by providing the rental subsidy directly to the low-income tenant. Within the last few years, the period to renew expiring rental assistance contracts has been reduced from 5 years to 1 year. This action provided initial budget savings but increased the number of expiring contracts and, hence, the funding needed for renewing these contracts in 2009 and beyond.

With regard to single-family housing, the 2009 budget reflects a shift from direct to guaranteed loans as proposed for 2008. This shift would reduce the cost of providing homeownership opportunities in rural America in a manner than is consistent with the administration of other Federal housing programs and sustainable as a long-term policy. Guaranteed loans have accounted for almost all the growth in USDA's single-family housing program since the mid-1990's and have proven to be effective in reaching low-income as well as moderate income households. The 2009 budget includes \$4.8 billion for such guaranteed loans, an increase of \$658 million and an amount estimated to provide about 43,000 homeownership opportunities in rural America.

For the water and waste disposal program, the 2009 budget supports \$1.3 billion in direct loans, \$75 million in guaranteed loans and \$220 million in grants, for a total program level of \$1.6 billion, which is a slight increase over the program level for 2008. The 2009 budget does not repeat the 2008 budget proposal to change the interest rate structure for direct loans, but it does reflect a sizeable shift from grants to direct loans. This shift achieves substantial budget savings while maintaining a high level of financial assistance that most rural communities can afford to repay at low interest rates.

For the electric program, the 2009 budget supports \$4.1 billion in direct loans for distribution, transmission, and power generation improvements. This level is expected to meet the demand for these categories of loans. Funding for baseload generation loans will be determined contingent upon enactment of legislation to authorize a fee to cover all subsidy costs. It is the administration's policy that the Department of Energy be the sole source of financial support for nuclear power generation facilities.

The 2009 budget supports almost \$300 million in broadband access loans. We believe this amount will provide sufficient resources to serve creditworthy applicants. It is anticipated that new program regulations for the broadband program will be in place for 2009 to ensure proper administration of the program and that more assistance will be directed to areas without existing providers. The budget also proposes \$20 million in distance learning and medical link grants.

Based on recent trends in applications and the potential availability of carryover, the 2009 funding level for Business and Industry guaranteed loans is \$700 million. In addition, the budget supports almost \$33 million in zero-interest direct loans for intermediary relending.

Research

Research to improve the quality and productivity of America's food production and distribution system has contributed to the strength of American agriculture. By improving the competitiveness of agricultural research, we will continue to post gains in agricultural efficiency and production. The administration strongly believes that merit-based, peer-reviewed grants represent the best mechanism for providing the highest quality research. In support of this approach, the 2009 budget for the Cooperative State Research, Education and Extension Service (CSREES) includes a \$19 million increase for the National Research Initiative (NRI), the Nation's premier competitive research program for fundamental and applied sciences in agriculture for bioenergy and biobased fuels, a continuing high priority of the administration. The NRI also supports integrated projects that focus on water quality, food safety, and pest management.

The budget also supports the administration's goal for earmark reform to bring greater transparency and accountability to the budget process. In this regard, the budget proposes to eliminate \$144 million in earmarked projects within CSREES. The budget also proposes to modify the Hatch and McIntire-Stennis formula programs. This proposal will expand multi-state research programs and direct a higher proportion of these funds to competitively awarded research projects. This will ultimately foster greater competition and improve the quality of USDA supported research. As proposed in the 2008 budget, the 2009 proposal would sustain the use of Federal funds to leverage non-Federal resources, maintain program continuity, facilitate responsiveness to State and local issues, and leverage and sustain partnerships across institutions and States.

The budget for the Agricultural Research Service (ARS) includes \$47 million in increases for high priority research conducted in areas such as emerging and exotic diseases of livestock and crops, bioenergy, plant and animal genomics and genetics, and human nutrition and obesity prevention. Funding increases for these critical research priorities are offset by the discontinuation and redirection of \$105 million in lower priority programs as well as the elimination of \$41 million in Congressional earmarks.

Finally, the budget includes \$39 million to complete the 2007 Census of Agriculture, the most comprehensive source of statistically reliable information regarding our Nation's agriculture. With information collected at the national, State, and county levels, the Census provides invaluable, comprehensive data on the agricultural economy which are relied upon to keep agricultural markets stable and efficient.

Nutrition Assistance

The budget supports increased participation and food costs for the Department's three major nutrition assistance programs—Food Stamps, WIC, and Child Nutrition. For WIC, the budget supports an average monthly participation of 8.6 million in 2009, up from 8.5 million in 2008. Food Stamp monthly participation is estimated at 28 million, about 200,000 above the 2008 level. School Lunch participation is estimated to grow a little over 1 percent to keep pace with the growing student population to a new record level of 32.1 million children per day.

For Food Stamps, legislation will be re-proposed to allow participation of certain households currently not eligible due to retirement and education savings accounts, child care expenses, and military combat pay. These re-proposals will also include legislation to close a loophole that some States used to enroll people not intended to be served by the program. For 2009, the budget includes increased funding to assess ways to increase participation among the elderly and the working poor, two populations that historically have been underserved. In addition, funds are also included to study ways to improve the application process as well as for nutrition education so that we can continue to refine the program.

The President's appropriation request is \$6.1 billion for WIC and will provide benefits to an average of 8.6 million monthly participants. Language is re-proposed to cap the national average grant per participant for State administrative expenses at the 2007 level, which will reduce overall financial requirements by about \$145 million in 2009. This reduction will encourage States to seek ways to be more efficient without affecting core services. In addition, the budget is re-proposing to limit automatic WIC income eligibility to Medicaid participants with household incomes that fall below 250 percent of the Federal poverty guidelines. The automatic eligibility provisions for Medicaid participants make some people with incomes up to 300 percent of poverty eligible, well above the 185 percent of poverty WIC statutory standard.

The Food and Nutrition Service is working with the States to implement the revised WIC food packages rule promulgated in December. The new rules allow the

States to offer fruits and vegetables, whole grains, and more flexibility to offer foods likely to appeal to a variety of cultural preferences which will improve WIC's ability to achieve its nutritional objectives.

The budget repropose the elimination of the Commodity Supplemental Food Program (CSFP), since the program is only available in limited areas, and overlaps with two of the largest nationwide Federal nutrition assistance programs—Food Stamps and WIC. USDA intends to pursue a transitional strategy to encourage the 30,000 women, infants and children that are eligible for WIC to apply for that program, and to encourage 434,000 elderly CSFP recipients to apply for the Food Stamp Program. As part of this strategy, the budget provides resources for outreach and temporary transitional food stamp benefits to CSFP participants 60 years of age or older. These benefits would equal \$20 per month for the lesser of 6 months or until the recipient starts participating in the Food Stamp Program. Overall the Food Stamp Program budget includes \$72 million for the transition in 2009.

The Department has had great success in promoting healthy eating habits and active lifestyles with MyPyramid, the new MyPyramid for Pregnant and Breastfeeding Women and associated web-based, interactive tools. There have been 4.3 billion hits to MyPyramid.gov and 3.2 million registrations to MyPyramid Tracker, the on-line tool that assesses diet quality and physical activity status, since MyPyramid was made available April 2005. The budget includes an increase of \$2 million to update and improve these popular tools plus develop the 2010 Dietary Guidelines for Americans. USDA has the lead in developing the Dietary Guidelines—the basis for determining benefit levels in Food Stamps, Child Nutrition Programs, WIC and others, as well as for Federal nutrition policy and nutrition education activities. This supports the HealthierUS Initiative, which is aimed at improving diets and increasing physical activity in order to reduce obesity in America.

Department Management

The 2009 budget continues to support the overall management of the Department. Increased funding is being sought for selected key management priorities including:

- Reviewing agency compliance with civil rights laws in program delivery and affirmative employment goals, while providing effective outreach to ensure equal and timely access to USDA programs and services to all customers.
- Ensuring that ethics oversight and the delivery of ethics services to the agencies is carried out in a consistent manner with clear accountability in the USDA program.
- Providing oversight of program delivery by conducting audits and investigations and limiting fraud, waste, and abuse throughout USDA.
- Funding rental payments to the General Services Administration and security payments to the Department of Homeland Security to provide USDA employees with a safe working environment.

In closing, I want to emphasize that the USDA budget fully supports the President's goals and funds the Department's highest priorities.

That concludes my statement. I look forward to working with members and staff of the committee and we will be glad to answer questions you may have on our budget proposals.

PREPARED STATEMENT OF PHYLLIS K. FONG, INSPECTOR GENERAL, OFFICE OF THE INSPECTOR GENERAL

I want to thank Chairman Kohl and Ranking Member Bennett for the opportunity to submit testimony to the subcommittee about the work of the Office of Inspector General (OIG) and our fiscal year 2009 budget request.

I am pleased to have the chance to provide the subcommittee with an overview of our most significant recent activities and the oversight work we have planned and in-process at this time. In fiscal year 2007, OIG issued 61 audit reports containing 255 recommendations to improve and protect USDA programs and operations. Pursuant to the statistical reporting requirements established by Congress in the Inspector General Act of 1978, we determined that OIG audits resulted in a potential monetary impact of \$91 million in fiscal year 2007.¹ OIG criminal investigations re-

¹ 5 U.S.C. App. 3 § 5.

sulted in over 520 indictments and 440 convictions in fiscal year 2007 and achieved an additional potential monetary impact of over \$63 million.²

This written statement will follow the framework of our four Strategic Goals. We organize our audit and investigative work under these Strategic Goals to effectively target OIG resources toward the key programmatic issues and public concerns facing the Department and our Congressional oversight committees. Our four Strategic Goals are (I) Safety, Security, and Public Health; (II) Integrity of USDA Benefits and Entitlement Programs; (III) Management Improvement Initiatives; and (IV) Stewardship of Natural Resources. The final section of my testimony provides information in support of the President's fiscal year 2009 Budget Request for OIG.

SAFETY, SECURITY, AND PUBLIC HEALTH

OIG Food Safety Reviews

Assessing USDA's Risk Based Inspection Program for Meat and Poultry Processing Establishments

In February 2007, the Food Safety and Inspection Service (FSIS) announced its plan to implement a pilot risk-based inspection (RBI) program for meat and poultry processing establishments. The agency believed it had comprehensive and reliable data and that "real and immediate" improvements could be made to the effectiveness of inspection operations. Congress and other stakeholders became concerned that FSIS was beginning to implement RBI before it had corrected deficiencies reported in prior OIG audits and that issues regarding the agency's methodology for determining risk had not been addressed. Consequently, there was a concern that food safety might be compromised if RBI proceeded at that time.

This subcommittee, working with the House Agriculture Appropriations Subcommittee, included language in the May 2007 emergency appropriations act³ to prevent FSIS from using funds to implement RBI in any location until OIG studied the program, including the data supporting its development and design. We conducted an assessment of the FSIS processes and methodologies used to design and develop its proposed RBI program, as well as FSIS' infrastructure and management controls that would support a reliable, data-driven RBI program. Our December 2007 report questioned whether FSIS has the systems in place to provide reasonable assurance that risk can be properly assessed, especially since the agency lacks current and comprehensive assessments of food safety systems at meat and poultry processing facilities.

Throughout the course of OIG's review, we discussed our concerns and provided recommendations to FSIS so that the agency could act to immediately address the weaknesses we identified. OIG's concerns related to FSIS' (1) assessments of establishments' food safety systems, (2) security over information technology (IT) resources and application controls, and (3) management control structure, among other issues. OIG reached agreement with FSIS on the agency actions necessary to implement each of the 35 recommendations we presented in our report.

OIG recommended that FSIS complete its plan for improving the use of food safety assessment-related data and determine how the assessment results will be used in determining risk. As the agency moves forward with the development and implementation of an RBI program, FSIS should ensure that its risk analysis and assessments are thoroughly documented and any data limitations are mitigated, and the decisions made in its inspections process are published and transparent to all stakeholders. FSIS also needs to implement appropriate oversight for the development of critical IT systems needed to support RBI. We made numerous additional recommendations to improve FSIS' management controls, data collection and analyses processes, and staff training.

FSIS has responded substantively to OIG's findings and recommendations. During the course of our audit, FSIS began a critical, in-depth examination of the data used as the components of its RBI assessment with a view to refining and expanding the data used in future versions of RBI. As of September 2007, FSIS awarded a contract to build the agency's new Public Health Information System (PHIS) to better integrate its numerous IT systems that are used to manage inspector activities. The primary goal of PHIS is to improve the timeliness of collecting/analyzing inspection data, and thereby enhance the agency's capability to address food safety hazards.

² Components of the monetary impact figure include fines, recoveries/collections, restitutions, claims established, cost avoidance, questioned costs, and administrative penalties achieved in OIG criminal investigative cases.

³ Public Law 110-038, enacted May 25, 2007. The U.S. Troops Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007.

Strengthening USDA's E. coli Testing Program

In response to a large recall involving contaminated ground beef product, the then-Acting Secretary requested in October 2007 that OIG determine whether improvements could be made to FSIS' sampling and testing procedures for *Escherichia coli* O157:H7 (*E. coli*) and identify relative costs and benefits associated with these improvements. OIG promptly initiated a review of the actions FSIS already had in process to improve its *E. coli* sampling and testing program. As part of our review, we solicited feedback from a broad array of stakeholders actively involved in this issue, such as representatives from other USDA and Federal entities with similar sampling and testing programs, meat industry representatives, academic institutions that perform *E. coli* research, and the quick-service restaurant industry.

OIG provided a memorandum report to USDA officials at the end of January 2008 containing our observations and suggestions. We concluded that while the actions FSIS has in process will improve its testing program, we believe that strengthening the adequacy, timeliness, and effectiveness of other aspects of the agency's Hazard Analysis and Critical Control Point (HACCP) verification activities would provide stronger assurance that federally-inspected establishments are properly identifying and controlling their food safety hazard risks. FSIS generally concurred with our findings and conclusions.

Improving Safety Inspections for Egg Products

Since 1995, FSIS has administered USDA's responsibilities under the Egg Products Inspection Act. FSIS inspects egg products to ensure they are wholesome, processed under sanitary conditions, and properly packaged and labeled to protect consumers. OIG evaluated FSIS' monitoring and inspection of egg processing plants to assess the agency's performance in meeting these responsibilities.

OIG found that FSIS has not yet integrated egg product inspections into its overall management control structure, including the science-based HACCP program and the automated Performance-Based Inspection System (PBIS).⁴ FSIS increasingly depends on PBIS and other automated systems to provide safeguards and oversight of its meat and poultry inspection operations. However, these automated systems cannot be extended to egg processing inspections until a system of electronic records is created to record inspection data for this area. This delay raises concerns about potential adulteration of processed products.

FSIS is developing a rule that would require egg product processing plants to develop and implement HACCP systems. In response to OIG's recommendations, FSIS agreed to develop a new IT system to track domestic inspection activities, including egg products processing, thereby replacing PBIS. FSIS also agreed to conduct trend analyses to identify and correct serious or widespread deficiencies at egg products processing plants.

OIG Investigations: Food Safety

Investigating Allegations of Adulterated Beef Entering the Food Supply

As members of the subcommittee are aware, USDA's investigation into recent allegations, made by the Humane Society, of inhumane treatment of cattle at a Chino, California, slaughter/processing facility has identified potentially adulterated beef entering the food supply. This has led to the biggest food recall in U.S. history. At the request of the Secretary, OIG is leading the Department's investigation into potential violations of the Federal Meat Inspection Act and the Humane Slaughter Act.⁵ Our investigation is ongoing, and we are working cooperatively with FSIS and other law enforcement agencies. We are coordinating our efforts with the U.S. Department of Justice (DOJ). At the conclusion of our investigation, we will report on our findings to the appropriate USDA officials. We have also initiated a companion audit that will examine procedural issues arising from the allegations against the Chino, California, facility. (Described on the following page of this statement.)

Investigating Fraud in the BSE Surveillance Program

OIG investigated allegations of fraud on the part of an Arizona facility that housed both pet food slaughter and meat processing operations and that participated in the Department's Bovine Spongiform Encephalopathy (BSE) Surveillance Program. Our agents revealed that the corporation's owner used various schemes to

⁴ FSIS has not implemented HACCP at the egg processing plants and it needs to accomplish this first before egg inspection results can be included in PBIS. Once egg inspection results, non-compliance records and other data are in PBIS, FSIS will have information in an electronic format that can be analyzed.

⁵ Federal Meat Inspection Act, 21 U.S.C. §§ 601–695 (FMIA); Humane Slaughter Act, 7 U.S.C. §§ 1901–1907.

increase the number of brain stem samples submitted for testing, thereby increasing the amount of USDA payments he received. Some of the samples the company submitted were from healthy, USDA inspected cattle. The owner was convicted of theft, mail/wire fraud, and aiding and abetting. A Federal court sentenced him to 8 months of imprisonment and 36 months supervised release and ordered him to pay a total of \$490,000 in fines/restitution.

Fraudulent Conduct Involving Contaminated Food Products

A joint OIG-Food and Drug Administration (FDA) food safety investigation in the past year disclosed that a Florida food processing company was the source of poultry and seafood products that were contaminated with *Listeria monocytogenes*, a potentially fatal pathogenic bacterium that can be found in ready-to-eat food products. The company did not initiate a recall of the product after learning that it tested positive for *Listeria monocytogenes*. The product was misbranded and shipped to several locations throughout the United States and Canada. The company president was charged with a scheme to defraud through the sale of adulterated foods and a scheme to introduce misbranded food into interstate commerce. He was sentenced to 15 months imprisonment and 36 months supervised release. Additionally, he received a fine of \$5,000 and was ordered to pay \$200,000 in restitution to the University of Florida to support its food safety programs.

OIG assisted in a multi-agency food safety investigation into the egregious conduct of a man who had made several allegations that his two young children were harmed by eating contaminated soup. The younger child, an 18-month old, had to be airlifted to an Atlanta hospital for critical care. A sample of the soup submitted to an FDA laboratory for analysis tested positive for Prozac and other anti-depressants. The investigation revealed that the father was responsible for contaminating the soup. He was charged in Federal court with food tampering and ultimately sentenced to 60 months imprisonment and 36 months supervised release.

Food Safety Oversight Work for Fiscal Year 2008: Planned and in Process

As mentioned above in my discussion of OIG's investigation into allegations of what occurred in the Chino slaughterhouse facility, OIG has recently initiated an audit concerning FSIS' Management Controls Over Pre-Slaughter Activities. Our objectives are to determine whether inspection controls and processes in that facility may have broken down and whether the alleged conduct (or omissions) represents an isolated or systemic problem. OIG will evaluate the adequacy of pre-slaughter controls and determine whether improvements are needed to identify and prevent similar problems from occurring elsewhere. We will coordinate this new audit with our ongoing inquiry into alleged criminal violations of food safety and humane animal handling laws at the Chino facility.

Follow-up Review on Meat and Poultry Import Inspections

We are currently conducting a follow-up audit of the Federal inspection system for meat and poultry imports. We will evaluate the adequacy of FSIS' foreign inspection processes concerning the equivalency of foreign food safety systems to U.S. standards; the agency's periodic, in-country reviews that assess whether foreign systems remain equivalent; and FSIS' re-inspection of imported products at U.S. ports of entry. We anticipate releasing our report in late April 2008.

FSIS Recall Procedures for Adulterated or Contaminated Product

As part of a request from the former Acting Secretary, OIG is evaluating issues regarding FSIS recall procedures for adulterated or contaminated product that have already entered the food distribution chain. We will identify whether improvements can be made to FSIS processes for handling recalls to ensure that appropriate information is rapidly conveyed to the appropriate agency decisionmakers. We plan to also evaluate whether FSIS is taking full advantage of its statutory authority to address recall situations. We anticipate releasing this report in late May 2008.

Oversight of the National Organic Program

America's organic foods industry is growing rapidly. Without effective oversight, non-organic products could be marketed as organic and sold for significant profit. To ensure producer compliance with USDA's National Organic Program, OIG plans to conduct an audit to evaluate the oversight provided by the Agricultural Marketing Service (AMS) and State and private certifying agents. As will be discussed below (Section V), the start of this audit has been delayed but we anticipate beginning work in August 2008.

OIG Investigations into Animal Cruelty and Dog Fighting

OIG is devoting increased attention to animal cruelty cases. During fiscal year 2007 and the first 4 months of fiscal year 2008, OIG criminal investigators opened 21 cases and helped achieve 132 convictions related to animal cruelty investigations.

Shutting Down Dog Fighting

OIG dog fighting investigations in 2007 resulted in two of the most significant cases we have pursued in recent years with respect to the number of convictions gained and the extensive public attention received. Foremost was our investigation into a dog fighting ring in Smithfield, Virginia, involving a professional athlete and his associates. This dog fighting ring operated from 2001–2007, until it was shut down as the result of OIG's investigation. The primary defendant's property contained structures specifically designed for dog breeding, housing, and fighting. A total of 66 dogs (52 pit bulls and 14 other breeds) were seized by State and local authorities in the execution of a search warrant on the property. OIG's Emergency Response Team (ERT) assisted in this investigation by recovering and transporting evidence located on the grounds. Pursuant to a court order, the 47 pit bulls forfeited to the U.S. Government were eventually transferred to a Utah animal sanctuary or seven other animal rescue organizations for foster and/or lifetime care of the dogs.

The five subjects of the dog fighting ring pled guilty in Federal court to conspiracy to travel in interstate commerce in aid of unlawful activities and to sponsoring a dog in an animal-fighting venture. The primary defendant was sentenced to 23 months incarceration and was ordered to pay \$928,073 in restitution to fund the lifetime care of the dogs rescued from his property. The four other subjects received varying sentences ranging from 2 to 21 months incarceration.

Our second major animal fighting investigation in 2007 was "Operation Bite Back," an investigation conducted jointly with the Ohio Organized Crime Investigations Commission into a multi-state dog fighting and gambling enterprise operating in Ohio, Kentucky, and Michigan. This investigation resulted in more convictions than any other single OIG investigation into dogfighting. During surveillance of various dog fighting events, we observed food stamp (Electronic Benefits Transfer, EBT) fraud, illegal wagering, the sale and use of narcotics, and felons illegally carrying firearms. Agents from OIG and other agencies seized pit bulls, U.S. currency, marijuana, cocaine, firearms, a bulletproof vest with a ski mask, and a warehouse full of dog fighting equipment and blood-stained fighting pits.

Operation Bite Back resulted in charges against 55 individuals, including violations of Federal and State laws prohibiting dog fighting, possession of firearms, gambling, food stamp trafficking, and interstate transportation of stolen vehicles. Guilty pleas were entered by 46 of the accused. OIG's National Computer Forensics Division provided digital analysis of three seized computers for the Dayton, Ohio, Police Department. Federal and State prosecution activity in this case is ongoing.

Homeland Security Oversight

Evaluating USDA Controls on the Importation of Biohazardous Materials

In order to protect our Nation's animal and plant resources from diseases and pests—and preserve the marketability of U.S. agricultural products—USDA's APHIS requires permits for entities⁶ seeking to import or move certain animals, animal products, pathogens, plant pests, and specified agricultural products. OIG evaluated APHIS' controls over its permit system regarding the importation of biohazardous and other regulated materials and assessed the effectiveness of APHIS' corrective actions in response to our 2003 audit report.

OIG determined that APHIS has taken some of the corrective actions recommended in a prior audit, such as restricting the hand-carrying of packages containing regulated materials through ports of entry. Persons authorized to hand-carry must now be named in the permit, and the permit holder must contact APHIS in advance to coordinate the arrival of all hand-carried regulated material. In addition, inspectors at the ports can now access the "ePermits" database system to verify the basic information contained on incoming permit documents.

Our audit found, however, that other key OIG recommendations to strengthen APHIS' permit systems against vulnerabilities and misuse still needed to be implemented. The agency had not fully implemented the new ePermits monitoring system. Until ePermits is fully operational, APHIS cannot monitor import activity at

⁶Examples include private, State, and Federal research laboratories, universities, and vaccine companies.

a nationwide level.⁷ Inspectors have not been provided instructions for using ePermits to screen incoming shipments. Although APHIS has made progress in improving its screening procedures for plant inspection stations at ports of entry, APHIS needs to develop controls to ensure that biohazardous materials are routed to those facilities.

The National Strategy for Pandemic Influenza: Reviewing USDA's Response

In late 2005, the President announced the National Strategy for Pandemic Influenza (National Strategy), a comprehensive approach to addressing the threat of pandemic influenza. The Implementation Plan of the National Strategy included over 300 tasks that were designed to ensure that the Federal Government, along with its State and local partners, continues to prepare for a possible outbreak in the United States. USDA was assigned responsibility for completing 98 of these tasks.

We have provided testimony to the subcommittee about the findings of our review of APHIS oversight of Avian Influenza (AI).⁸ We continued our oversight work in this area by evaluating USDA's progress regarding its responsibilities under the National Strategy. We found that USDA has made significant progress in developing or revising policies and procedures to detect, contain, and eradicate highly pathogenic

AI in order to reduce the threat of a pandemic.

USDA took action on each lead task we reviewed, such as helping to develop the interagency response playbook that detailed step-by-step actions that Federal agencies should take in response to an outbreak. Our review found, however, that these new procedures were not tested to ensure they worked as designed.

We also found that APHIS had not implemented all of the recommendations from our 2006 report intended to strengthen the agency's outbreak response capabilities. One was the recommendation that the agency work closely with State and industry representatives regarding outbreaks affecting live birds, in order to develop necessary response plans and review/certify State plans. These State plans are necessary to address gaps in the Federal response plan, including cleaning and disinfection, humane euthanasia, quarantine, and movement control. As a result, we believe APHIS has reduced assurance that it will be able to timely and effectively respond in the event of an outbreak. APHIS generally agreed with OIG's findings and recommendations.

Homeland Security Oversight in Fiscal Year 2008: Planned and in Process

USDA Participation in the Rehabilitation of Flood Control Dams

The Natural Resource Conservation Service (NRCS) is authorized to assist local organizations with the rehabilitation of aging flood control dams. Many NRCS assisted dams in the United States are near or at the end of their 50-year design life and warrant inspection and potential rehabilitation. A dam failure in Hawaii and a "near bursting" dam in Massachusetts demonstrate the need to determine the conditions of NRCS-financed dams. OIG initiated an audit to review the adequacy of NRCS' controls for the rehabilitation of agency-assisted flood control dams. We anticipate releasing this report in mid-2008.

PROTECTING THE INTEGRITY OF USDA BENEFIT AND ENTITLEMENT PROGRAMS

USDA's Response to Hurricanes Katrina and Rita: Preventing Waste and Abuses

Since I last submitted testimony to the subcommittee (March 2007), OIG has concluded several of the primary audits we initiated in response to the devastating 2005 hurricane season. Members of Congress urged Federal OIGs to work in concert to ensure that the massive Federal funds allocated for multi-agency disaster relief efforts in 2005 were expended efficiently and not subject to waste and abuse. In a series of audits, OIG found areas where improved agency controls were necessary to avoid further waste and fraud, and we identified USDA "best practices" that could also benefit other Federal entities. I would like to highlight several of our more significant reviews for the subcommittee.

At the onset of the hurricanes, OIG quickly deployed audit teams to the Food and Nutrition Service's (FNS) food stamp distribution centers in the Gulf region. Our personnel reviewed and observed the operation of FNS disaster food stamp pro-

⁷For example, until the ePermits system is fully operational, the agency cannot perform analyses to identify trends in permit activity that could signal possible misuse of the permit system. The ePermits system could not provide officials with information on which permit holders had been inspected or were required to be inspected before permit issuance.

⁸APHIS-Oversight of Avian Influenza. OIG report number 33099-11-HY. June 2006.

grams⁹ as State and local personnel disbursed benefits to families affected by the disasters. Our audit teams were able to provide feedback to FNS and State personnel on whether program controls were sufficient to prevent abuses such as duplicate payments, dual participation, and employee fraud. OIG concluded that FNS and participating State agencies quickly and effectively provided over \$800 million in disaster food stamp benefits to millions of disaster victims. However, we did note that improvements could be made to ensure that State agencies are adequately prepared in disaster situations. States did not always include required components in their disaster plans, such as fraud prevention procedures. Some application processing systems used by States did not track denied applications or account for all family members—two factors that can result in fraudulent benefits. Based on OIG recommendations, FNS agreed to specify in regulations the State agency responsibilities for developing and implementing disaster assistance programs.

Focusing primarily on loan and grant funds being disbursed to repair hurricane damage in the Single Family Housing Program (SFH), OIG audit staff found that USDA's Rural Housing Service (RHS) and other Federal agencies had not coordinated activities to prevent duplicate housing assistance payments to hurricane victims. RHS had not required recipients to provide information about reimbursements and assistance they received from insurance companies and charitable organizations. This resulted in some recipients receiving duplicative financial assistance from RHS and other sources for a single damage claim. We also found that RHS emergency grant funds were awarded for ineligible purposes, such as non-disaster related repairs, improvements and repairs unrelated to health and safety concerns, and use of unlicensed contractors. RHS is taking action to address the majority of our recommendations. We are continuing discussions with agency officials to reach management decision on the propriety of using hurricane disaster funding for non-hurricane related repairs.

Disruptions resulting from Hurricanes Katrina and Rita temporarily impacted commodity prices received by farmers. Afterwards, USDA developed initiatives to alleviate transportation congestion on the Mississippi River, such as providing grants to move damaged corn from New Orleans and move agricultural commodities through other regions. The Farm Service Agency (FSA) implemented the initiatives and provided monetary assistance through the Commodity Credit Corporation (CCC). OIG conducted an audit that determined USDA needed an improved response and recovery plan to relieve future, serious disruptions in the movement of commodities along the Mississippi River. Due to the urgent situation brought about by the hurricanes, USDA had initially used ad hoc procedures to award noncompetitive agreements that resulted in higher costs compared to competitively-secured agreements. FSA acted upon OIG audit recommendations to coordinate with USDA entities, industry stakeholders, and other Federal agencies to formalize a response/recovery plan for disruptions to the grain transportation/storage system.

OIG also conducted numerous criminal investigations into allegations of fraudulent activity resulting from Federal hurricane relief efforts. To date, our investigations have achieved 61 indictments and 18 convictions involving the Food Stamp Program. We continue to work closely with DOJ Fraud Task Forces in Louisiana and Mississippi to ensure that allegations of fraud are investigated.

While the aforementioned audit and investigative work represent OIG's most recent contributions to USDA's disaster relief activities, this year we will assess the efficiency of other USDA programs that assist citizens and communities during emergencies. In fiscal year 2008, we expect to issue reports on the Hurricane Indemnity Program, Livestock and Feed Indemnity Programs, Emergency Forestry Conservation Reserve Program, and Emergency Conservation Program, among others.

Review of Misreported Nonfat Dry Milk Pricing Data

Each week, the National Agricultural Statistics Service (NASS) collects data from plants that commercially produce in excess of 1 million pounds of dairy products, which are then used to determine current market prices. In brief, the nonfat dry milk prices NASS publishes are used by AMS to help set the minimum prices paid to milk producers in the Federal milk marketing order system.

In a review done by OIG's Office of Inspections and Research, OIG determined that a large dairy firm misreported nonfat dry milk volume and price information when submitting its weekly reports to NASS beginning in 2002. The incorrect data,

⁹ Under a disaster food stamp program, FNS can waive requirements of the regular program in order to provide benefits quickly to disaster victims. Some items that were waived during the hurricanes included income requirements, eligibility tests, and identity tests. Benefits are provided at many different locations. Because of the reduced eligibility requirements, duplicate participation and other types of fraud can readily occur.

once aggregated with other firms' data, was then factored into the Federal milk marketing order formula, resulting in a \$50 million underpayment to milk producers.

We offered recommendations to NASS centering on the need for the agency to verify the information previously received from dairy plants which will allow the calculation of a more precise Federal milk marketing order price for milk producers. We also recommended measures to ensure improvement in NASS' data collection process. NASS agreed with each of our recommendations and has taken steps to improve its data collection and review processes.

Identifying Improper Payments: Conservation Programs

The Natural Resources Conservation Service (NRCS) administers conservation easement programs that restore lands to their natural state (i.e., wetlands and grasslands) by purchasing conservation easements from landowners. Participating landowners agree to limit use of their land to activity that both enhances and protects the purposes for which the easements were acquired. Land under conservation easements may be ineligible for farm assistance payments from FSA.¹⁰ NRCS field offices are required to notify FSA whenever land is placed under a conservation easement, so that FSA does not make payments to landowners with conservation easements on farm land. In a previous audit, OIG found situations where FSA made improper farm assistance payments to landowners for land under conservation easements. To determine the extent of such ineligible payments in one major agricultural State, we conducted an audit in 2007 to expand our previous work in California.

OIG's review found additional examples demonstrating the need for better inter-agency communication, coordination, and program integration between NRCS and FSA. In 49 of the 53 Wetland Reserve Program and Emergency Watershed Protection Program easements we reviewed, NRCS did not notify FSA when the easements were recorded. This occurred because the local NRCS field offices mistakenly expected the relevant NRCS State office to fully inform FSA of the easements. Without the necessary easement information, FSA made improper farm assistance payments on 33 easements, totaling \$1,290,147. During our fieldwork, we recommended that NRCS immediately provide a list of easements in California to FSA. Our report recommended that NRCS provide training for field staff in California regarding their responsibility to notify FSA about recorded easements. NRCS and FSA responded that each agency has taken appropriate corrective action to remedy the specific concerns noted in OIG's report and established a protocol to ensure better inter-agency communications.

Assessing USDA's Efforts to Promote U.S. Farm Exports

In response to a Congressional request, OIG reviewed the extent to which the Foreign Agricultural Service's (FAS) market development programs foster expanded trade activities in the exporting of U.S. agricultural products. OIG was asked to review concerns regarding U.S. trade practices, promotion efforts, and financing operations, and to identify areas for USDA to achieve greater results with improvements such as enhanced inter-department coordination.

OIG found that FAS does not formally track its efforts to expand exports or its outreach to U.S. exporters and thereby had no assurance that outreach efforts were effective in expanding U.S. agricultural exports. OIG issued recommendations intended to allow USDA to more effectively measure its accomplishments and thereby prioritize limited resources to better promote U.S. exports. FAS generally concurred with OIG's recommendations and has agreed to take corrective action on each.

Reviewing the Tobacco Transition Payment Program

Legislation enacted in 2004 ended the Depression-era tobacco quota program and established the 10-year, \$10.14 billion Tobacco Transition Payment Program (TTPP) to provide annual transitional payments to eligible tobacco quota holders and producers.¹¹ Payments began in fiscal year 2005 and are funded through assessments on tobacco product manufacturers and importers. CCC estimates that payments made over the 10-year period will approximate \$6.7 billion to quota holders and \$2.9 billion to tobacco producers. OIG is conducting a three-phase review of TTPP. The first phase has now been completed; we examined FSA's controls on payments to quota holders and concluded that they were generally adequate to ensure that TTPP payments were issued to eligible quota holders. The second phase (audit of TTPP

¹⁰ If a landowner with NRCS conservation easements participates in FSA farm assistance programs, he or she is required to inform FSA about the easements so the agency can appropriately reduce the landowner's crop bases and calculate their assistance payments.

¹¹ TTPP quota holders are the landowners of farms to which tobacco quota was assigned.

assessments) is ongoing and the final phase (audit of payments to producers) is planned for later this fiscal year.

OIG Investigations: Farm Programs and Crop Insurance Fraud

In fiscal year 2007, OIG criminal investigators helped obtain 35 convictions in cases involving criminal activity related to FSA and Risk Management Agency operations. Our investigative work related to these two agencies achieved approximately \$21.6 million in monetary results during fiscal year 2007.

Uncovering Fraud Related to the Tobacco Program

OIG conducted a joint investigation that resulted in two North Carolina men being ordered to forfeit \$4.5 million for their conspiracy to structure financial transactions to avoid filing currency transaction reports. The men used an extensive network of accomplices, family members, and friends to conduct over \$4.5 million of transactions in increments under \$10,000 to avoid filing the required reports. OIG agents determined that both men intentionally engaged in fraudulent actions regarding the proper identification of tobacco grown under FSA's Burley Tobacco Marketing Program. The IRS, FBI, and Tennessee Bureau of Investigation participated in this investigation.

Uncovering Fraud in the Crop Insurance Program

OIG agents revealed a crop insurance scheme in Virginia wherein an insurance company supervisor and a claims adjuster colluded to misrepresent a tomato farmer's production records. The supervisor backdated forms to enable the producer to meet planting dates approved by RMA and falsified production totals to ensure the producer would realize a loss. The adjuster made false statements by verifying that he visited the producer's fields; in fact, no such visits were made. The producer was unaware of the actions taken by the supervisor and the adjuster. OIG determined that the misrepresentations resulted in the producer receiving a \$308,000 Federal crop insurance indemnity payment for purported tomato losses. The supervisor and the adjuster were sentenced in 2007; the supervisor was sentenced to 5 months imprisonment and additional home detention; and the adjuster received a sentence of 24 months probation. Both men were ordered to pay \$240,031 in restitution and were debarred by RMA from participation in the crop insurance program for 3 years.

A second crop insurance case investigated by OIG determined that producers in Georgia conspired to use a third producer as a "front." The scheme involved using the front's name as the producer because he had a higher production yield for tobacco. The two producers thereby received larger crop insurance payments during several years from 2000 to 2004 and paid cash to the front for his participation. OIG's investigation resulted in the two producers paying a combined restitution of \$739,000 to USDA prior to their sentencing for misprision (concealment) of a felony. The producers were each sentenced in August 2007 to 48 months probation and fined \$80,000 in addition to the restitution. The front producer cooperated in the investigation and received pretrial diversion.

OIG Investigations: RD Programs-Fraud by Company Financial Officer Results in Sentence and Restitution

OIG conducted an investigation into an Oklahoma manufacturing company's former chief financial officer who used falsified documents to obtain RD loans. Our investigation disclosed that the individual fraudulently obtained \$4.9 million in financial assistance from USDA and an Oklahoma bank, and another loan of \$275,000 from a local lender. USDA ultimately paid the lender \$1.8 million as a result of the loans going into default. The investigation resulted in the former financial officer being sentenced to 40 months imprisonment and 60 months supervised release. He was also ordered to pay \$3.8 million in restitution.

OIG Oversight of the Crop Insurance Program in Fiscal Year 2008: Planned and in Process

Reviewing RMA Compliance Activities

RMA administers the Federal crop insurance program in a partnership with approved, private sector insurance providers (AIP). RMA is mandated to ensure integrity in the program; its actions include monitoring AIP performance and conducting various compliance activities. We are in the latter stages of our review of the effectiveness of the agency's compliance activities and expect to issue our report in mid-2008.

Implementing an Effective Quality Control System for Crop Insurance

We previously reported that RMA must have an effective quality control system in place to fully implement the Agricultural Risk Protection Act of 2000 and thereby strengthen the program's integrity and improve participant compliance. To date, we still have not reached management decision on three of the four recommendations in OIG's 2002 report. OIG recently initiated a review of the corrective actions planned and/or implemented by RMA. We will assess the agency's oversight activities concerning AIP program delivery and examine whether AIPs have implemented the controls required to prevent/detect program abuses, waste, and improper payments.

Evaluating Crop Losses and Indemnity Payments Due to Aflatoxin-Infected Corn

RMA issued indemnity payments totaling \$27 million nationwide for the 2005 crop year due to Aflatoxin-infected corn.¹² Agency concerns about the market price data used to calculate the resulting indemnity payments led RMA to request OIG's assistance. We therefore initiated an audit to evaluate (1) whether RMA had sufficient management controls regarding those payments, (2) whether indemnity payments were properly determined, and (3) whether payments were based on reasonable reductions in market value, among other issues.

OIG Oversight of Rural Development Programs in Fiscal year 2008: Planned and in Process

Rural Business Cooperative Service: Reviewing Economic Development Loans to Intermediaries

RBS' Intermediary Relending Program (IRP) seeks to increase economic activity and employment in rural communities and alleviate poverty by providing loans to local organizations that utilize the funds to make direct, smaller loans to eligible businesses and projects in the community. In fiscal year 2007, the IRP had over 400 borrowers and a loan portfolio of \$687 million. Congress has appropriated approximately \$33 million for the IRP for each of the past 3 fiscal years. OIG is examining RBS' internal controls to determine if they are sufficient to ensure that IRP loan funds are properly spent. OIG will examine whether these loans are made to eligible borrowers for eligible purposes, the liens are appropriately used to secure the loans, and RBS' servicing actions are effectively managing collections, delinquencies, and defaults.

Rural Rental Housing: Concerns About Owner Financial Data and Maintenance

OIG has previously found theft of project funds by owners and management companies, totaling \$4.2 million.¹³ The thefts contributed to deteriorated Rural Rental Housing (RRH) projects that threatened the health and safety of rural residents nationwide. We are planning a new review to determine whether there is adequate accounting for the financial data submitted by owners, whether the RRH project's operating expenses are reasonable and documented, and whether Rural Development's (RD) inspection procedures effectively resolve RRH maintenance and repair issues.

During fiscal year 2008, OIG also plans to audit the Rural Housing Service's (RHS) management controls to determine if they are sufficient to limit delinquencies in the SFH Direct Loan Program.

Rural Utilities Service: Broadband Loan Programs and Water and Waste Programs

Based upon the findings of OIG's September 2005 audit, the House Agriculture Appropriations Subcommittee expressed concern that the Rural Utilities Service (RUS) had not taken sufficient corrective actions regarding its Broadband Loan Program. OIG reported that of the \$599 million in broadband funds reviewed, over \$340 million (67 percent) was expended for questionable purposes. We plan to conduct a comprehensive follow-up audit to determine RUS' progress in managing its broadband programs and address specific concerns raised by Members of Congress.

In fiscal year 2007, RUS' Water and Waste Programs provided over 1.3 million rural subscribers with new or improved service facilities at a cost of approximately \$1.6 billion. These programs are limited to communities that have populations of 10,000 or less, with low median household income levels, and cannot obtain credit

¹² Aflatoxin, produced by the fungus *Aspergillus flavus*, is a potent carcinogen. Its presence in corn reduces marketability.

¹³ Rural Rental Housing Program, Uncovering Program Fraud and Threats to Tenant Health and Safety. OIG Report 04801-6-CH, issued March 1999.

elsewhere. OIG plans to evaluate management controls in the agency's Southeast region to determine whether water and waste funding is being allocated only to communities meeting these criteria.

Improving USDA Nutrition Programs: Oversight of Governmental and Private Entities

In addition to our disaster food stamp program work, we also issued several other nutrition assistance program audits in 2007. We audited nonprofit sponsors in California and Nevada participating in the agency's Summer Food Service Program. We found several deficiencies in three sponsors' administration of the program, including unsafe food handling and storage. The sponsors also submitted reimbursement claims for unsupported and questionable costs. Our review of the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) in Puerto Rico determined that FNS had not ensured that the Commonwealth's agency resolved deficiencies noted in prior FNS reviews, including inadequate oversight of WIC vendors. Commonwealth WIC officials compromised the vendor bidding process by releasing information that allowed vendors to calculate bid prices in ways that increased food costs to the program and violated regulations by permitting in-store credits. These credits resulted in reimbursement to vendors for products that were not delivered to WIC participants.

In 2007, OIG also assessed the EBT system controls of the company that is the program's largest EBT processor. In fiscal year 2008, we will continue our oversight in this field by reviewing elements of the EBT systems in Colorado and California.

OIG Investigations: Targeting Fraud and Theft in USDA Nutrition Programs

In fiscal year 2007, OIG investigators helped obtain 77 convictions in cases involving criminal activity related to food stamp program/EBT fraud and achieved \$25.4 million in monetary results.¹⁴ For criminal activity related to the WIC program in fiscal year 2007, OIG investigators helped obtain 10 convictions and \$507,884 in monetary results.

The following cases provide examples of the type of criminal activity and schemes our agents uncover.

Vendor Fraud in the Food Stamp Program

A repeat offender of the food stamp program received an extended sentence after a joint investigation OIG conducted with Internal Revenue Service (IRS) and the Syracuse Police Department. The individual was a "straw owner" of a grocery store that redeemed over \$1 million in illegal food stamp benefits during 2005 and 2006. Seeking to hide his prior conviction on food stamp fraud, the individual had another person act as the store owner and obtain the FNS license necessary to redeem food stamp benefits. The straw owner purchased food stamp benefits for below face-value from recipients and was then reimbursed by the food stamp program for their full value. The OIG/joint investigation resulted in the former store owner being sentenced in June 2007 to 30 months in prison, 36 months probation, and restitution of \$330,074 to USDA. The sentence will run consecutively with the 33-month sentence (currently being served) he received for money laundering in an earlier food stamp fraud case prosecuted in the Northern District of Ohio.

OIG conducted an investigation with U.S. Immigration and Customs Enforcement (ICE) into the former owners of two Chicago grocery stores engaged in EBT trafficking. The owners redeemed approximately \$1.2 million in EBT benefits and over a year's time withdrew more than \$100,000 without reporting the financial transactions to IRS. The two were found guilty of wire fraud, aiding and abetting, money laundering, and conspiracy to avoid currency regulations. In September 2007, the first owner was sentenced to 90 months of imprisonment, to be followed by deportation and was ordered to pay \$1.1 million in restitution. The second owner was sentenced to 12 months imprisonment and ordered to pay approximately \$61,000 in restitution.

Investigations to Safeguard the Women, Infants, and Children Program

A major OIG case involved an interstate conspiracy in which extremely large amounts of infant formula that were shoplifted in the Atlanta metro area were transported to New York in rental trucks. A covert search during the investigation revealed that the baby formula was stored in an infested, non-refrigerated storage unit during extreme heat conditions, causing the formula to become adulterated. The value of the stolen goods for the two organized crime organizations involved was approximately \$6.48 million. In December 2007, five members of the two orga-

¹⁴Each of the monetary result statistics contained in this testimony statement were determined as required by the Inspector General Act of 1978, 5 U.S.C. App. 3 § 5.

nizations received sentences ranging from 27 to 60 months in Federal prison for conspiracy and 42 to 65 months for interstate transportation of stolen property. The five members each received an additional 36 months of supervised release. OIG investigated this case with FDA and the Organized Crime Unit of the Atlanta Police Department. Prosecutorial activity is ongoing.

We are currently awaiting sentencing in a case in which OIG agents determined that the husband and wife owners of a Michigan grocery store had fraudulently redeemed approximately \$917,000 in WIC coupons and food stamp benefits. In July 2007, the husband pled guilty to food stamp trafficking and agreed not to contest the forfeiture of approximately \$108,000 (including WIC vouchers) seized from his business and residential properties. The woman was enrolled in Medicaid and childcare subsidy programs; she did not disclose her part-ownership in the store and provided false information regarding her family income, thereby improperly receiving over \$22,000 in Government subsidies. The wife pled guilty to false statements related to her welfare fraud. OIG worked this case jointly with the State of Michigan's Human Services Department.

OIG agents worked with Federal and local law enforcement agencies to reveal that an FNS authorized convenience store operator in North Carolina was involved with other individuals in a stolen infant formula theft ring and counterfeit pharmaceutical scheme. A Virginia man involved in the conspiracy had devised a scheme to illegally transport stolen "WIC approved" infant formula from the North Carolina convenience store to Virginia and New York. Two suspects paid undercover agents approximately \$100,000 for "stolen" infant formula that had a retail value in excess of \$700,000. The store operator was sentenced in June 2007 to 37 months in prison and 36 months supervised probation; a deportation hearing will be held upon release. The individual responsible for transporting and trafficking the infant formula had previously pled guilty in Federal court. The FDA, FBI, and the Wilson, North Carolina, Police Department participated in the investigation.

IMPROVING USDA MANAGEMENT

USDA's Fiscal Year 2007 and 2006 Consolidated Financial Statement Audits

Pursuant to the Chief Financial Officers Act of 1990 and Office of Management and Budget (OMB) guidance, Federal OIGs are responsible for annual audits of Departmental and agency financial statements to obtain reasonable assurance that the financial statements are free of material misstatements. For fiscal year 2007, OIG issued a qualified opinion on the USDA Consolidated Financial Statements and the RD Financial Statements. The qualified opinions were the result of significant revisions made to RD's credit reform processes related to the Single Family Housing Program cash flow model and subsidy re-estimates. We were unable to obtain sufficient evidence to support USDA's or Rural Development's financial statement amounts as of the end of fiscal year 2007 for estimated allowances for subsidy costs.

The Commodity Credit Corporation, Forest Service (FS), FNS, and Federal Crop Insurance Corporation/RMA received unqualified opinions on their fiscal year 2007 financial statements.¹⁵ However, OIG noted that the Department needs to continue improving its overall financial management, information technology security and controls, and certain financial management processes. The Office of the Chief Financial Officer (OCFO) has immediate and long-term plans to substantially improve these financial and IT material weaknesses.

Oversight of USDA's Information Technology Security

Last fall, we issued our annual review of the Department's Federal Information Security Management Act (FISMA) efforts for fiscal year 2007. Our review determined that the Department has improved its IT security oversight in several areas during the fiscal year. For example, the inventory of agency systems had significantly improved. In other areas, such as the certification and accreditation (C&A) process, improvements were noted, but additional work is still needed. However, a continuing material IT control weakness exists within the Department due to the lack of an effective, Departmentwide IT security plan. In our view, an effective plan would measurably improve USDA's ability to correct IT issues that affect its agencies and the Department as a whole. If the Department and its agencies effectively identify and prioritize the IT risks that exist and work collaboratively to resolve them, they can implement a time-phased plan to systematically mitigate them. Increased agency emphasis will facilitate improvements in compliance with required standards, plan of action and milestones reporting, risk level characterization, C&A

¹⁵ An unqualified opinion means USDA and standalone agencies' financial statements fairly presented their financial position and related reporting.

of key IT processes, Privacy Act implementation and encryption, and configuration management.

The Department concurred with OIG findings and recommendations and is taking steps to implement corrective actions. USDA officials advise that these IT control weaknesses are complex, affect most agencies within the Department, and will take time to fully resolve.

Processing USDA Employee Civil Rights Complaints

In response to a request from Senators Harkin and Lugar, we followed up on an earlier OIG review and evaluated USDA's performance in tracking and processing equal employment opportunity (EEO) complaints from USDA employees and job applicants.¹⁶ We found that the Office of Civil Rights (CR, now known as the Office of Adjudication and Compliance) had significantly reduced the time required to complete an average case by approximately 50 percent from 1997 through 2006. The agency also began implementation of its Civil Rights Enterprise System (CRES) a web-based application that enables USDA agencies and CR to use a single, improved automated system for processing/tracking EEO complaints. Previously, USDA agencies all maintained separate systems that were not reconciled. However, our audit also found that CR could not track EEO complaints effectively or process them on time and material weaknesses persisted in CR's management control structure and environment. Consequently, CR continued to miss Equal Employment Opportunity Commission (EEOC) required timeframes. While the implementation of CRES was a positive step, CR did not establish sufficient protocols in the system to ensure the accuracy and sufficiency of complaint data.

In response to OIG's recommendations, CR agreed to a series of corrective measures. These include developing a detailed formal plan to process EEO complaints timely and effectively, fully test and implement improved CRES protocols and validate the accuracy of its complaint information, and implement procedures to control and monitor case file documentation and organization.

OIG Investigations Involving USDA Employees

In addition to OIG's law enforcement activities regarding external parties and individuals who violate Federal laws pertaining to USDA programs and operations, we are responsible for examining and investigating allegations that USDA employees have engaged in serious misconduct or criminal activity related to their employment. Following are two examples of such cases from 2007.

An OIG investigation involving a former RD Community Development Technician with 25 years of Federal service revealed that the individual had created fictitious loan files and grant applications. The former employee wrote checks from an agency supervised account regarding fictitious loan applications and stole the funds for her personal use. The former employee was sentenced to serve 24 months in prison, followed by 36 months supervised release, and ordered to pay \$160,484 in restitution for embezzlement.

Following a joint OIG-FBI investigation, an Illinois man was arrested by the Cairo, Illinois, Police Department and found to possess hundreds of counterfeit identification cards, including two APHIS Veterinary Service photo identification (ID) cards. The police also found an identification-making machine and related paraphernalia. The individual utilized the false ID cards to cash fabricated checks at grocery stores throughout the Midwest. He was sentenced in Federal court in May 2007 to 60 months in prison, 60 months of supervised release, and ordered to pay \$26,129 in restitution for the manufacture/possession of counterfeit USDA identification documents.

Oversight Work Regarding USDA Management in Fiscal Year 2008: Planned and in Process

The Use of Suspension and Debarment in USDA

OIG is conducting an audit to assess the use of suspension and debarment procedures by USDA agencies. We will determine the extent to which USDA personnel are effectively using and enforcing existing authorities, so that individuals and entities found to have previously abused Federal programs do not cause further injury or loss to the Government.

¹⁶Office of Civil Rights—Management of Employment Complaints. OIG report 60801–3–HQ, issued March 10, 2000.

THE STEWARDSHIP OF USDA'S NATURAL RESOURCES

Implementation of Renewable Energy Programs in USDA

In 2006, the President developed the Advanced Energy Initiative to reduce the Nation's dependence on foreign energy sources as a matter of economic and national security. USDA established an Energy Council to coordinate and guide renewable energy activities within the Department and with other Federal departments. USDA uses its renewable energy funding to conduct research and to provide loans and grants to build facilities for ethanol, cellulosic, wind, and solar renewable energy projects.

OIG has an audit ongoing to evaluate the Department's efforts to promote renewable energy projects, as it was directed by the 2002 Farm Bill, the 2005 Energy Policy Act, and the Advanced Energy Initiative. Our review includes an assessment of the agencies' internal controls regarding recipient eligibility, the issuance of renewable energy funds, and the coordination of renewable energy research within USDA. Our audit work is focusing on renewable energy activities at the Departmental level and within the following agencies: RBS; RUS; Agricultural Research Service; Cooperative State Research, Education, and Extension Service; and FS. We anticipate releasing this report in April 2008.

*Natural Resources Oversight Work for Fiscal Year 2008: Planned and in Process**Conservation: Wetlands Reserve Program—Restoration Costs and Oversight*

The Wetlands Reserve Program (WRP) assists private landowners by providing financial and technical assistance to restore, enhance, and protect wetlands in a cost-effective manner through long-term easements and cost-share agreements. WRP focuses on enrolling marginal lands that have a history of crop failure or low yields and restoring and protecting degraded wetlands. OIG is examining WRP restoration costs and NRCS' monitoring of restoration efforts on these lands.

Farm and Ranch Lands Protection Program—Review of Non-Governmental Organizations

The Farm and Ranch Lands Protection Program provides matching funds to purchase development rights to keep productive farm and ranch lands in agricultural use. NRCS uses cooperative agreements to partner with State, tribal, or local governments and non-governmental organizations (NGO) to acquire conservation easements or other interests in land from landowners. Due to our 2006 audit findings that an NGO circumvented NRCS policies, we initiated a nationwide audit to evaluate the adequacy of NRCS' controls regarding NGOs and the appraisals used in conservation easement purchases.

Effectiveness of NRCS' Reviews Regarding Producer Compliance with Conservation Requirements

In order to maintain their eligibility for USDA program benefits, producers are required to apply conservation systems to control soil loss or preserve wetlands on highly erodible lands and wetlands. NRCS implemented a status review process to assess producer compliance with its conservation requirements and thereby determine (with FSA) producers' continued eligibility for farm program benefits. Due to problems disclosed in prior OIG and Government Accountability Office audits, OIG is reviewing actions taken by NRCS to address our prior findings and recommendations and evaluating the agency's current status review operations.

OIG Oversight of Forest Service Programs and Operations

While I recognize that the subcommittee does not appropriate funds for FS, I would like to briefly discuss OIG's oversight work related to FS because it is an important area of oversight responsibility for us. Due to FS' vast size—a budget of \$4.4 billion and approximately 30,000 FTEs in fiscal year 2008—and its vital mission to manage America's national forests and grasslands, OIG devotes considerable resources to FS oversight activities.

To address concerns about the airworthiness of firefighting aircraft, we audited the FS Air Safety Program to determine whether it minimizes the risk of accidents and contributes to the effective use of aerial resources.¹⁷ We concluded that FS has made strides in improving its air safety program, but believe the agency still needs to implement an airworthiness assessment and maintenance program for all of its aircraft that is targeted towards the demands that a firefighting flight environment imposes on aircraft.

¹⁷Forest Service's Air Safety Program. OIG Report 08601-48-SF, issued February 2008.

In 2007 and 2008, OIG provided testimony on three occasions to House and Senate committees regarding our work assessing the increasing, large fire suppression costs borne by USDA/FS, and the over-accumulation of hazardous fuels in the national forests that is contributing to these larger and more destructive fires.¹⁸ We advised that the majority of FS' large fire suppression costs (50 percent to 95 percent) are directly linked to protecting private property in the Wildland Urban Interface. At the time of our audit, FS did not have the ability to ensure that the highest priority fuels reduction projects were funded first. The financial burdens on FS due to wildland firefighting are likely to continue to rise because of current public expectations and uncertainties about Federal, State, and local responsibilities.

OIG Investigations: FS Operations and Personnel

As part of our FS oversight responsibilities, OIG has a statutory duty to conduct an independent investigation into the death of an officer or an employee of the Forest Service that is caused by wildfire entrapment or burnover and to provide the results of our investigation to the Secretary and Congress. With the support of this subcommittee, we therefore established our Wildland Fire Investigation Team (WFIT) to ensure that select OIG criminal investigators receive extensive training in the highly specialized field of wildland fire fighting. We currently have two investigations ongoing related to FS firefighter fatalities. The first pertains to the Thirtymile Fire that occurred in July 2001 in the Chewuch River Canyon area north of Winthrop, Washington. The second ongoing investigation pertains to the FS fatalities that occurred during the Esperanza Fire that occurred in October 2006 in Riverside County, California.

A further OIG investigation of note regarding FS in 2007 was our investigation into the cause of several 2004 wildfires in the Coconino National Forest (Arizona) that consumed 24 acres. OIG agents found evidence that a long-serving, experienced FS fire management officer had intentionally set the fires. The former FS employee eventually confessed to starting two wildfires in the forest and retired during the course of the investigation. He was sentenced in Federal court in June 2007 to 24 months in prison and 36 months of supervised release and ordered to pay a total of \$15,390 in fines and restitution.

FS Oversight Work for Fiscal Year 2008: Planned and in Process

We have audit initiatives underway to review FS' firefighting succession planning (ensuring the agency will have a sufficient number of skilled, well-trained Incident Commanders), the agency's use of contract labor crews, and its replacement plan for firefighting aerial resources. We also plan to review FS' acquisition practices for IT hardware and software.

OIG'S FISCAL YEAR 2009 BUDGET REQUEST

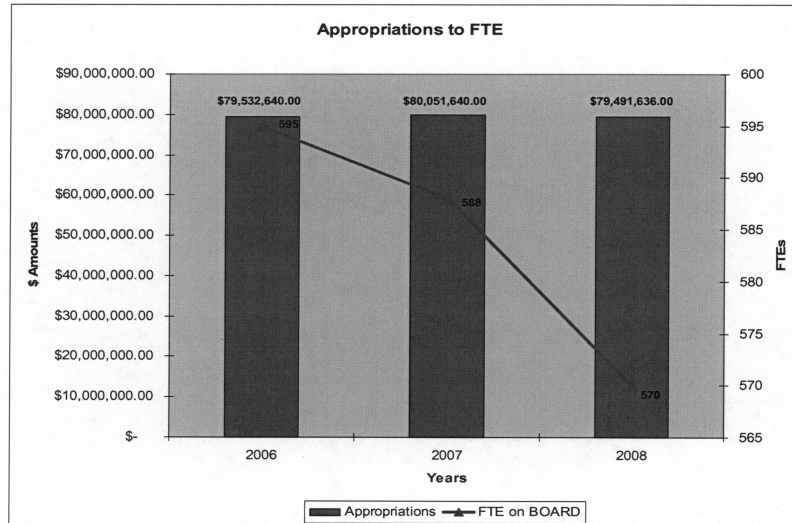
Finally, I would like to provide the subcommittee with information describing OIG's budget situation in fiscal year 2008 and the President's fiscal year 2009 request for OIG. We are very appreciative of the support this subcommittee has shown for OIG's work and your understanding of our need for resources to produce that work. We are providing this information to assist you with your review of the fiscal year 2009 budget request.

OIG's Current Budget Situation

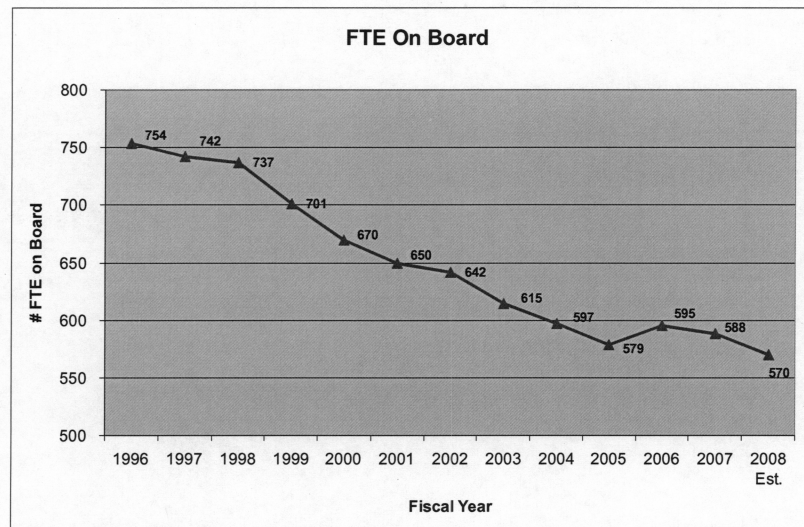
As the chart below demonstrates, OIG's Congressional appropriation was essentially straight-lined between fiscal years 2006 and 2007 and actually went down between fiscal years 2007 and 2008. For fiscal year 2008, the President had requested \$83,998,000 in appropriated funds for OIG. OIG received only \$79,491,000 (an appropriation of \$80,052,000 minus a rescission of \$560,364). This does not include funding requested to cover the mandatory pay raise, allow OIG to expand its work on crop insurance issues, or make needed improvements to its IT infrastructure.

In order to live within these budget constraints, meet our mission as best we can, and fund legislatively mandated pay increases, OIG has now reached the point where it has instituted a hiring freeze with the goal of reducing staff levels. Our plan calls for OIG staffing levels to be reduced, through attrition, to 570 by the end of fiscal year 2008. This is a reduction of 18 staff from fiscal year 2007, which itself was a reduction of 7 staff over fiscal year 2006.

¹⁸ Fire suppression costs for FS averaged \$994 million annually from fiscal year 1998 through fiscal year 2006. Suppression costs for the 2007 fire season are estimated to exceed \$1.3 billion.



Unfortunately, these reductions follow an extended period of decline for OIG staffing levels. In the 10 years between fiscal year 1996 and fiscal year 2006, OIG staff declined approximately 22 percent. With the reductions over the last 2 years, OIG has lost 26 percent of its work capacity in just a 12 years.



Staff reductions alone do not tell the full story of operational changes OIG has had to make. For instance, for fiscal year 2008 we have made a series of tough budget decisions to enable us to live within our appropriated funds.

- We postponed equipment purchases for the National Computer Forensics Division (NCFD), which are necessary to keep that unit within compliance with professional equipment and training standards.
- We postponed necessary training and equipment purchases for the Emergency Response Program (ERP).

- We cut a total of \$900,000 from our IT budget. Most recently, we concluded that we would have to skip a year in our normal cycle of replacing one third of our laptops each year. We cannot suspend this replenishment cycle another year without finding ourselves in the position of having laptops that will not be compatible with the new operating system USDA is expecting to roll out in fiscal year 2009 or fiscal year 2010.
- We cut basically all other OIG discretionary spending (contracting, training, and travel) by an average of 8 percent. The travel cuts were particularly painful as they have a direct effect on the number and scope of the audits and investigations OIG can do. Where previously an audit might have included sufficient sites to support nationwide projections and recommendations, we will likely have to limit a number of our future audits to a regional scope.

President's Fiscal Year 2009 Budget Request for OIG

The President's Budget request for OIG for fiscal year 2009 is \$85,776,000. The request would enable OIG to:

- Cover the mandatory pay raise costs expected for fiscal year 2009.
- Eliminate the hiring freeze and address critical vacancies.
- Purchase two new Storage Area Networks (SAN) to enable OIG to take advantage of data replication and disaster recovery options not available when OIG's current SANs (which go out of warranty in fiscal year 2009) were purchased.
- Make the delayed purchases to support our NCFD and ERP.
- Restore funds cut from Audit and Investigations travel, thereby increasing the scope of oversight work we can perform.

If, however, OIG does not receive the staff support and IT costs requested by the President, OIG would have to reduce staff further in fiscal year 2009. Should OIG not receive the requested funding, we estimate that it will be necessary to reduce the fiscal year 2009 staffing level by 21 staff, or almost 4 percent below the already drastically reduced fiscal year 2008 levels. OIG staff would then be down 30 percent since fiscal year 2006.¹⁹

OIG's ability to provide services to the Department, Congress, and the public is directly tied to the number of staff it can support through pay and related costs. Over the last 3 fiscal years, management has agreed to over 1,143 OIG recommendations for program improvements and over \$1.8 billion in OIG financial recommendations and investigative recoveries. Those numbers—which are really just a statistical barometer of OIG's impact on Departmental operations—will most likely decrease as our staff continues to decline, as will our ability to do the types of work we summarized for you today in this testimony. We have done all we can to do more with less; we are now at that juncture where, in truth, we can only do less with less.

- In fiscal year 2008 alone, our Audit office will lose approximately 12 work years and \$400,000 in travel funds. Several audits (including some identified as high priority) will need to be delayed; the scope of some audits will have to be reduced; and some audits will have to be cancelled outright. The following is a partial list of audits that have already been delayed and may have to be cancelled.

An audit of the National Organic Program, which was scheduled to start in January 2008, will now be delayed until August 2008. Organic food sales have grown between 14 to 21 percent each year since 1997. Sales of organic foods in 2006 exceeded \$16 billion. However, with the staffing and travel requirements for this audit, the work will need to be split between 2 fiscal years to have sufficient resources to conduct the audit.

Audits addressing WIC vendor monitoring, new farm programs included in the Farm Bill, acquisition of IT software and hardware, the FSA comprehensive compliance system, and the RMA National Program Operations Review are being delayed, and no estimated start date has been set due to lack of currently available resources. These audits involve billions of dollars in program payments and analyses of agency internal control and compliance systems that help ensure program integrity.

- Should staff, equipment, and travel resources available to our Investigations office continue to diminish, OIG will have to increasingly limit our investigative

¹⁹This estimated reduction is based on the following assumptions: OIG would have to absorb a pay cost approximate to the \$1.9 million we absorbed this year, the postponed NCFD and ERP enhancements would have to be funded at \$.3 million, and one-third of OIG laptops would need to be replaced at approximately \$.4 million. This would equal a total additional cost of \$2.6 million that would have to be absorbed at OIG's current budget level. Estimating \$122,000 per FTE, that would be approximately 21 staff.

focus only to those food safety and security issues that directly imperil public health. The resources dedicated to detecting and preventing fraud in USDA programs would have to decline, in order to preserve our ability to work on critical safety and security cases. Unfortunately, this reduced capacity for fraud investigations would likely end in greater cash losses to the Federal Government than are saved by the cuts to OIG.

It is to avoid further limitations on OIG's ability to provide independent, effective audit and investigations coverage to USDA programs and operations that we are asking for your support of the President's Budget Request for fiscal year 2009 for OIG.

This concludes my statement. I again want to thank the leadership of the subcommittee for the opportunity to submit testimony to you. I hope you will not hesitate to contact me should you have any questions or desire additional information.

PREPARED STATEMENT OF NANCY C. PELLETT, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, FARM CREDIT ADMINISTRATION

Mr. Chairman, members of the subcommittee, I am Nancy C. Pellett, Chairman and Chief Executive Officer of the Farm Credit Administration (FCA or Agency). On behalf of my colleagues on the FCA Board, Dallas Tonsager of South Dakota and Leland Strom of Illinois, and all the dedicated men and women of the Agency, I am pleased and honored to provide this testimony to the subcommittee.

I would like to thank the subcommittee staff for its assistance during the budget process, and before I discuss the role and responsibility of the Farm Credit Administration and our budget request, I would respectfully bring to the subcommittee's attention that FCA's administrative expenses are paid for by the institutions that we regulate and examine. In other words, FCA does not receive a Federal appropriation but is funded through annual assessments of Farm Credit System (FCS or System) institutions and the Federal Agricultural Mortgage Corporation (Farmer Mac). Earlier this fiscal year, the Agency submitted a proposed total budget request of \$49,640,147 for fiscal year 2009. The Agency's proposed budget for fiscal year 2009 includes funding from current and prior assessments of \$49,000,000 on System institutions, including Farmer Mac. Almost all this amount (approximately 82 percent) goes for salaries, benefits, and related costs.

MISSION OF THE FARM CREDIT ADMINISTRATION

As directed by Congress, FCA's mission is to ensure a safe, sound, and dependable source of credit and related services for agriculture and rural America. The Agency accomplishes its mission in two important ways.

First, FCA ensures that the System and Farmer Mac remain safe and sound and comply with the applicable law and regulations. Specifically, our risk-based examinations and oversight strategies focus on an institution's financial condition and any material existing or potential risk, as well as on the ability of its board and management to direct its operations. Our oversight and examination strategies also evaluate each institution's efforts to serve all eligible borrowers, including young, beginning, and small farmers and ranchers.

Secondly, FCA approves corporate charter changes and researches, develops, and adopts regulations and policies that govern how System institutions conduct their business and interact with their customers. If a System institution violates a law or regulation or operates in an unsafe or unsound manner, we use our supervisory and enforcement authorities to ensure appropriate corrective action.

FISCAL YEAR 2007 ACCOMPLISHMENTS

In fiscal year 2007 we continued our efforts to achieve our Agency's strategic goals through (1) effective risk identification and corrective action and (2) responsible regulation and public policymaking. FCA has worked hard to maintain the System's safety and soundness. We also continually explore ways to reduce regulatory burden on the FCS and to ensure that all System institutions are able to provide agriculture and rural America with continuous access to credit and related services.

EXAMINATION PROGRAMS FOR FCS BANKS AND ASSOCIATIONS

The Agency's highest priority is to maintain appropriate efficient and effective risk-based oversight and examination programs. Our examination programs and practices have worked well over the years and have contributed to the present overall safe and sound condition of the System, but we must continue to evolve and prepare for the increasingly complex nature of financing agriculture and rural America.

With the changes in the System and our human capital challenges within the Agency (i.e., pending retirements, normal attrition of staff, and the ever-increasing need for more sophisticated skills in the financial sector), we have undertaken a number of initiatives to enhance our skills and expertise in key examination functions. We have also realigned our organizational structure to make the best use of our resources. Our Office of Examination has completed its transition from a regionally-based field office structure to divisions of nationally-based examination teams. Office locations have been retained, but the examination programs are now managed nationally to better manage strategic risks faced by the FCS institutions.

On a national level, we actively monitor risks that may affect groups of System institutions or the entire System, including risks that may arise from the agricultural, financial, and economic environment in which the System institutions operate. Examiners use a risk-based examination and supervision program to differentiate the risks and develop individual oversight plans for each FCS institution. For example, the System has been a leader in lending to the ethanol industry from its infancy and continues to support this rapidly evolving sector. Our examiners watch the concentration risk in this and other areas to make certain lending is done in a safe and sound manner.

We set the scope and frequency of each examination based on the level of risk in the institution. Examiners base the scope of their oversight and examination activities on their assessment of an institution's internal controls environment and the ability of the institution's board and management to manage risks. Our regulations require FCS institutions to have prudent loan underwriting and loan administration processes, to maintain strong asset-liability management capabilities, and to establish high standards for governance and transparent shareholder disclosures. The frequency and depth of our examination activities may vary, but each institution is provided a summary of our activities and a report on its overall condition at least every 18 months as required by the Farm Credit Act. Most issues are resolved through corrective actions established in the Report of Examination or other communications. In extreme cases, FCA will use its enforcement powers to effect changes in the institution's policies and practices to correct unsafe or unsound conditions or violations of law or regulations.

As part of our ongoing efforts, we evaluate each institution's risk profile. The Financial Institution Rating System (FIRS) is the primary risk categorization and rating tool used by examiners to indicate the safety and soundness of an institution. FIRS ratings range from 1 (for a sound institution) to 5 (for an institution that is likely to fail). As of December 31, 2007, FIRS ratings as a whole continued to reflect the stable financial condition of the FCS: 83 institutions were rated 1, 14 institutions were rated 2, and three institutions were rated 3. Importantly, there were no institutions rated 4 or 5. In addition, no FCS institutions are under enforcement action and no FCS institution is in receivership. The overall financial strength maintained by the System remains strong and does not pose material risk to investors in FCS debt, the Farm Credit System Insurance Corporation (FCSIC), or FCS institution stockholders.

During fiscal year 2007, FCA also performed various examination and other services for the Small Business Administration, the U.S. Department of Agriculture, FCSIC, and the National Consumer Cooperative Bank. Each of these entities reimbursed FCA for its services.

REGULATORY ACTIVITY

Congress has given the FCA Board statutory authority to establish policy and prescribe regulations necessary to ensure that FCS institutions comply with the law and operate in a safe and sound manner. The Agency's regulatory philosophy articulates our commitment to establishing a flexible regulatory environment that enables the System, consistent with statutory authority, to offer high-quality, reasonably priced credit to farmers and ranchers, their cooperatives, rural residents, and other entities on which farming operations depend. This focuses our efforts on developing balanced, well-reasoned, flexible, and legally sound regulations. We strive to ensure that the benefits of regulations outweigh the costs; to maintain the System's relevance in the marketplace and rural America; and to ensure that FCA's policy actions encourage member-borrowers to participate in the management, control, and ownership of their Government-sponsored enterprise (GSE) institutions. For fiscal year 2007, the Agency's regulatory and policy projects included the following:

—*Young, Beginning and Small Farmers (YBS)*.—The Board acted to ensure that all System institutions assist YBS farmers to enter, grow, or remain in agricultural or aquaculture production. A revised Bookletter, issued in August, provides guidance to all FCS institutions on interpreting the phrase "sound and

constructive credit” when applied to YBS farmers and ranchers and on extending credit to part-time YBS farmers who demonstrate a commitment to be full-time agricultural producers. The Bookletter further encourages System lenders to provide credit enhancements so that YBS farmers can qualify for financing, and it encourages System lenders to mitigate the risk of lending to YBS farmers by increasing coordination with other lending entities and sharing best practices.

- Policy Guidance Provided on Rural Housing Lending.*—FCS institutions are authorized to provide rural housing financing for single-family, owner-occupied, and moderately priced dwellings, but System institutions had reported difficulties in applying the regulatory definition of a “moderately priced” rural home. In response, the Agency issued an Informational Memorandum providing answers about the regulatory definition of moderately priced housing, what is necessary to identify moderately priced housing values, and what data are acceptable to establish those values.
- Disclosure and Reporting Final Rule.*—The Agency issued a final rule amending existing disclosure requirements for reports to System shareholders and investors. These amendments ensure that the System’s disclosures and financial reporting keep pace with recent changes in industry practices, Securities and Exchange Commission regulations implementing the Sarbanes-Oxley Act of 2002, and Public Company Accounting Oversight Board auditing standards.
- Final and Proposed Rule Updating the Farmer Mac Risk-Based Capital (RBC) Stress Test.*—We amended the RBC regulations in response to changing financial markets, new business practices, and the evolution of the loan portfolio at Farmer Mac, as well as continued development of industry best practices among leading financial institutions. The RBC is used to calculate Farmer Mac’s regulatory minimum risk-based capital level. The rule is intended to improve the model’s output by more accurately reflecting risk. In addition, we also proposed to further amend RBC regulations to update the recent additions to Farmer Mac’s program operations, to address assumptions on the carrying costs of nonperforming loans, and recognize counterparty risks on nonprogram investments. The FCA Board is expected to act on this final rule in 2008.
- Advance Notice of Proposed Rulemaking (ANPR) on Capital Adequacy.*—We issued an ANPR to solicit public input on appropriate changes to FCA’s capital adequacy requirements for the System in light of Basel II proposals by the other Federal banking agencies.

The Agency has also adopted an ambitious regulatory and policy agenda for fiscal year 2008. The agenda includes the following goals:

- Finalizing a proposed rule to change the requirement for determining the eligibility of processing and marketing entities for System funding.
- Developing a proposed rule to describe how System partnerships and investments can increase the availability of funds to help stimulate economic growth and development in rural America. The System began using such partnerships and investments under a pilot program initiated during fiscal year 2005.
- Continuing to review current regulatory requirements governing eligibility and scope of lending to determine if these requirements are reasonable in light of agriculture’s changing landscape. Agency staff will identify issues and explore options for the Board’s consideration.

CORPORATE ACTIVITIES

The pace of System restructuring remained slow in fiscal year 2007. Only one corporate application was submitted for FCA Board review and approval during fiscal year 2007, compared with four applications the prior year. As of January 1, 2008, the System had 94 direct-lender associations and five banks for a total of 99 banks and associations. Seven service corporations and special-purpose entities brought the total number of FCS institutions to 106 entities. Through mergers, the number of FCS associations has declined slightly more than 45 percent since 2000, and the number of FCS banks has decreased almost 30 percent.

CONDITION OF THE FARM CREDIT SYSTEM

As noted previously, the System’s overall condition and performance remained strong throughout 2007. The FCS is fundamentally sound in all material aspects, and it continues to be a financially strong, reliable source of affordable credit to agriculture and rural America. Capital levels continued to be strong, especially in consideration of the System’s risk profile. Asset quality remained high, loan volume growth was strong, and the System earned \$2.7 billion in 2007, a 13.8 percent increase from 2006.

Gross loans grew by 15.8 percent in 2007, compared with 16.2 percent the previous year. Nonperforming loans increased by \$6 million to \$621 million as of December 31, 2007. However, nonperforming loans represented just 2.35 percent of total capital by the end of 2007, down from 2.52 percent at the end of 2006. The System has earned more than \$1 billion consistently each year since the early 1990s; as a result, capital remains strong and is made up largely of earned surplus, the most stable form of capital. A strong capital position will help the System remain a viable, dependable, and competitive lender to agriculture and rural America during any near-term downturns in the agricultural economy.

FEDERAL AGRICULTURAL MORTGAGE CORPORATION

FCA also has oversight, examination, and regulatory responsibility for the Federal Agricultural Mortgage Corporation, which is commonly known as Farmer Mac. Congress established Farmer Mac in 1988 to provide secondary market arrangements for agricultural mortgage and rural home loans. In this capacity, Farmer Mac creates and guarantees securities and other secondary market products that are backed by mortgages on farms and rural homes. Through a separate office required by statute (Office of Secondary Market Oversight), the Agency examines, regulates, and monitors Farmer Mac's disclosures, financial condition, and operations on an ongoing basis and provides periodic reports to Congress.

Like the Farm Credit System, Farmer Mac is a GSE devoted to agriculture and rural America. FCA and the financial markets recognize Farmer Mac as a separate GSE from the System's banks and associations. Farmer Mac is not subject to any intra-System agreements or to the joint and several liability of the FCS banks, nor does the Farm Credit System Insurance Fund back Farmer Mac's securities. However, by statute, in extreme circumstances Farmer Mac may issue obligations to the U.S. Treasury Department to fulfill the guarantee obligations of Farmer Mac Guaranteed Securities.

CONCLUSION

In conclusion, we at FCA remain vigilant in our efforts to ensure that the Farm Credit System and Farmer Mac remain financially strong and focused on serving agriculture and rural America. It is our intent to stay within the constraints of our fiscal year 2009 budget as presented, and we continue our efforts to be good stewards of the resources entrusted to us in order to meet our responsibilities. While we are proud of our record and accomplishments, I assure you that the Agency will continue its commitment to excellence, effectiveness, and cost efficiency and will remain focused on our mission of ensuring a safe, sound, and dependable source of credit for agriculture and rural America. On behalf of my colleagues on the FCA Board and at the Agency, this concludes my statement and I thank you for the opportunity to share this information.

AUDITS OF SLAUGHTER PLANTS

Senator KOHL. Thank you very much, Mr. Secretary.

We would like to thank you again for testifying last month about the Westland/Hallmark beef recall. I believe that was a productive hearing. We have been following up with your staff since then. We are drafting a bill that gets at this issue from several angles, which will include a potential downer ban. I believe we need to continue working on this and I am hopeful we can achieve an accord.

Yesterday, Mr. Secretary, I received the results of the audits of slaughter plants under contract with USDA for nutrition programs, to which you referred. As you said, you audited 18 plants. If you add in the plant at Chino, there are 19 total plants actively participating in the Federal nutrition programs. Of these, two had offenses serious enough to require a notice of suspension. While it is just two, it is over 10 percent of the total that were audited.

In early March, the Las Vegas Sun quoted you as saying that you would not be surprised if there were more plants like the one in Chino out there and that hiring additional inspectors will not help because "if they're going to break the rules, then they're going

to break the rules.” These remarks did trouble me a bit, especially if 10 percent of the plants have serious problems, because they suggest that perhaps USDA has reached a limit in what it can do to improve food safety.

So we would like to give you a chance to elaborate and clarify. Do you really think that USDA cannot do a better job? And what action has USDA taken since our hearing and what action is planned?

Secretary SCHAFER. Thank you, Mr. Chairman. As we did point out in the letter to you yesterday, we have done audits at 18 facilities. I appreciate you bringing up the Hallmark/Westland plant as number 19, but as you know, that is not operating. It is in suspension.

The three issues where we found problems in humane treatment of animals were not on a downer cow situation. They were things like crowding in the pens. It was bunching up of cattle going into the stunning operation and excessive use of stunning sticks or the prodders. Those facilities have been corrected.

As we look at this, we are confident that USDA can do a better job. We have redirected our inspectors. We are rotating the inspectors, the time they are coming in and out of the facilities. As you know, the plants cannot operate unless the inspector is in place, as we do a carcass-by-carcass inspection of every cow that goes through the process.

As we have looked at the inhumane treatment of animals, you will also notice in the investigation that we sent you yesterday that all facilities have cameras and surveillance in some portions. Many of them have them in the stunning area and in the pens as well. So we are looking at ways that we can better observe. We have helped train our inspectors to observe while being unobserved so that they can properly watch over the system. And I do believe that the result of our investigations, when we get completed, will allow us to make some further changes to enhance the process. But we believe that the USDA inspectors and veterinarians are capable, are hard-working and committed to their jobs, and we think we can direct them in the proper place so that this does not take place again.

OIG REPORT

Senator KOHL. In your statement, you talked about the OIG report. Can you estimate when that report will be complete?

Secretary SCHAFER. I cannot, Mr. Chairman. I met with the OIG officer a few days ago, and as you know, that is an independent investigation arm and we do not have the legal relationship for them to include us in the timing and the depth of the investigation. But we were urging them to get it done as soon as possible because we are working on efforts to assure the people of the United States that we have a safe food supply out there, and as we start enhancing the message on safe food, we want to make sure that we incorporate the results of the investigation.

RECALLED MEAT

Senator KOHL. Can you tell us whether all of the recalled meat from the school lunch program has been identified, collected, and destroyed?

Secretary SCHAFER. Sir, I think all of the meat has been identified. It has been contained. Most of it has been destroyed. All of it has not.

Senator KOHL. What do you want us to take from that statement, or what would you want the public to take from that statement?

Secretary SCHAFER. It was put on hold. Once we started the recall, all meat that went into the school lunch program was identified. It was contained. We purchased meat to replace product taken from the schools. And so as we are going through that process, we are destroying that meat as we go. We are not complete with that process, so I know there is still some that is contained, identified, but not totally destroyed. And we are reimbursing those schools for the costs in doing so.

Senator KOHL. All right.

WIC PROGRAM

Before I turn it over to Senator Bennett, I would like to discuss WIC with you a bit. As you know, we need to start talking about WIC immediately. The President's request last year was \$633 million short of what was ultimately needed. We had to come up with the difference and we were forced to do it without any input from USDA. We do not want to repeat that situation, I think we could agree. So we have asked USDA for monthly reports on participation and food cost estimates.

We did receive the second of these reports yesterday, and in a nutshell, in the current fiscal year will be short somewhere between \$65 million and \$100 million, even after releasing the entire contingency fund. The report says that you are looking at available options to address this problem.

What options are you considering? As you know, we are currently working on a supplemental appropriations bill.

Secretary SCHAFER. Maybe I could get the best answer from Scott for you, as we look at these dollars. As we looked at the budget, we planned on an 8.6 million participation level and also increased the budget based on current food costs and estimated food costs. We think that the budget does reflect the proper dollars for the participation and cost level. But maybe Scott could give us a few more details.

Mr. STEELE. Yes, thank you, Mr. Secretary.

Mr. Chairman, the shortfall that was identified in Under Secretary Johnner's letter to you identified a shortfall for 2008, the current fiscal year at somewhere between \$65 million and \$100 million.

There are some options we are looking at. We have used the Secretary's interchange authority in prior years and we are looking at that option as a possibility. We are in discussions with OMB on that. We have not yet defined exactly what we are going to do.

We have yet some more time here in April and maybe part of May to figure out a solution to that problem. We certainly will be in touch with the committee in terms of how we are going to resolve that and whether we need to discuss some options with you in terms of resolving it.

For 2009, we are still staying with our current participation estimate, as the Secretary just indicated, the 8.6 million. We are looking at that estimate, obviously, on a monthly basis. We will be doing our mid-session review estimate in July, which would be an official estimate by the executive branch. OMB would be clearing off on that. A revised estimate would come to Congress in July.

But as you say, we are on an ongoing basis, looking at this, submitting our monthly reports to you, and we will try to keep abreast of it and identify problems that we see coming forward.

It is our biggest discretionary program, as you know. It is over \$6 billion a year. It is rising rapidly. As the Budget Officer of the USDA, I am concerned about the funding for the program given it is a discretionary program. So we are going to have to work closely together to try to resolve this.

Thank you.

Senator KOHL. Thank you. I think we can all agree that it is something that needs to be monitored, as you have suggested, very, very closely. WIC needs to be funded. It is really not something that we have discretion in terms of whether we will or will not. We know we are going to have to fund WIC. And if we do not work very closely, then we will be caught in a very serious situation, and I think collectively we do not want that to happen. So we do look forward to working with you in an honest, forthcoming, and timely manner on WIC.

Senator Bennett.

Senator BENNETT. Thank you very much, Mr. Chairman.

PUBLIC LAW 480 TITLE II GRANTS

Secretary Schafer, the supplemental request from the President contains a request from you for additional funding for Public Law 480 Title II grants of \$350 million. The supplemental last year contained a request for \$350 million. The supplemental for the year before that contained a request for \$350 million.

This is a pretty strong coincidence, that for 3 years in a row, you have asked for an additional \$350 million and it raises the question, why do you not just put \$350 million in the regular budget and be done with it? Is this request really based on unanticipated needs and is it just a coincidence? Help us understand why there is not something in the regular budget for this.

Secretary SCHAFFER. Well, we think that the budget reflects a prioritization among the competing demands for international humanitarian assistance. This budget request really addresses the most severe and critical emergency food and needs overseas.

As far as the specifics, I will turn to our Budget Officer, Scott Steele, for information on the specific programs.

Mr. STEELE. Thank you, Mr. Secretary.

Mr. Bennett, yes, the Department of Agriculture does not unilaterally decide on the level for Public Law 480, Title II assistance. As you well know, the Title II program is operated by USAID.

Senator BENNETT. Right.

Mr. STEELE. And they have people in the field. As you know as well, the foreign assistance situation is a very dynamic situation right now, and we have the issues in Darfur in Sudan and other places that are—

Senator BENNETT. I am not questioning the need for it.

Mr. STEELE. Yes, I understand what you are saying. It has gone on repeatedly and we do have other options to consider as well. We have the Emerson Trust as something that could come into play here at some point as well.

I do not have a good answer for you in terms of why the Department's budget did not reflect the additional \$350 million in terms of a request. You are right. It continues on as a major problem in funding food assistance. We will try to provide more information for the record, if that is okay.

[The information follows:]

PUBLIC LAW 480 TITLE II BUDGET REQUEST

International emergency food assistance needs have been unusually high in recent years due to a variety of causes, both man-made and natural. The United States has continued to demonstrate leadership in responding to those needs, including through the provision of food aid commodities under the Public Law 480 Title II program. In order to do so, in certain years supplemental appropriations have been requested for the Title II program to meet the extraordinary levels of emergency need.

Many factors are considered in developing the annual budget request for the Public Law 480 Title II program, including what level of funding should be included for emergency programming. This effort is complicated because development of the annual budget submission begins more than a year before the start of the fiscal year. That time frame makes it difficult to project with accuracy what the level of emergency needs will be during the course of the year and, therefore, difficult to budget for them with certainty. As a result, there may be years when emergency needs exceed the level provided through the annual appropriations, and the administration will need to consider what steps are necessary to ensure the United States can respond to extraordinary emergencies. One option for doing so is to request supplemental appropriations.

However, in responding to unanticipated emergencies there are alternatives to a supplemental appropriations request. For example, one option is authorizing a release of commodities or funds from the Bill Emerson Humanitarian Trust. The Trust specifically provides for the commodities to be programmed through Title II to provide a humanitarian response to unanticipated, emergency food aid needs. On April 14, 2008, the President directed the Secretary of Agriculture to release commodities from the Trust to meet emergency food aid needs abroad this year; this action is expected to provide an additional \$200 million of assistance.

In addition, in recent years the President's budgets have included a request for authority for the Administrator of AID to use up to 25 percent of annual Public Law 480 Title II funding to purchase commodities in countries closer to where they are to be donated. This authority would facilitate the donation of a higher level of commodities as savings achieved in transportation and distribution costs would be available for additional commodity purchases. Approximately 60 percent of annual Title II funding is used for non-commodity costs for the program, which includes ocean freight expenditures. Consequently, the savings achieved through enactment of this proposal could be substantial, and those savings would be extremely helpful in responding to unanticipated emergency situations.

All of these factors—the uncertainties inherent in projecting emergency response needs, the availability of the Bill Emerson Humanitarian Trust, and the proposal for overseas purchases—were considered in developing the President's budget request for the Public Law 480 Title II program for 2009. At the same time, the resource requirements for Title II had to be weighed against competing claims for funding from many other worthy programs that assist the American public, including through agriculture, rural development, and food and nutrition programs.

Senator BENNETT. Yes, that will be fine. But give some serious consideration to building it into your regular budget because every

spring there is a supplemental and every spring it is for \$350 million. It appears to say that amount regular budgeting procedures ought to be able to anticipate that amount and put that in the annual budget.

COMMODITY PRICES

Let me go to the issue that I mentioned in my opening statement, which is commodity prices. They have shown a drastic increase both in the cash prices and in the future market and have had a drastic ripple effect across all areas of agriculture. The rising prices have made it more expensive to feed a family, but it has also driven up the participation rates of the various programs that are involved in this, WIC, food stamps, et cetera. There are States now where one in six people are on food stamps, which is not what we had anticipated.

How is the Department dealing with the unpredictability of the costs and the subsequent unpredictability of the participation in these programs? And, Dr. Glauber, I would be interested in having your take on what the primary cause of these increases would be.

Dr. GLAUBER. In terms of the underlying cause, there is no question there is a number of things going on in world markets. People point, one, to the rapid expansion of area devoted to biofuel production. That is certainly important.

But I think in looking at the overall food price picture certainly in the United States, there is a number of other things to consider. Dairy prices. We have seen very, very high dairy prices. Of course, dairy products figure heavily in a number of budgets, of food aid program budgets. Most of that increase I think could be attributed to declining milk production in New Zealand and Australia. They have had very serious droughts over the last couple years. World dairy prices have been very high as a result.

So I would attribute that less to sort of high corn prices, although there is no question that the sectors themselves are feeling the pinch of higher feed prices.

The other big thing, of course, in a very visible price increase both on futures markets but also at the grocery store, has been bakery products. There have been underlying wheat problems. That too is largely a problem of overseas production. There was also a very short crop in Australia. There was also a poor crop in Canada this year. There was a poor crop in Europe this past year. They are all expected to rebound production, but in the meantime, we saw futures prices hit as high as 20 percent, and not surprisingly, that is being reflected in bakery products and other cereals and other sorts of things.

Now, this past year 2007, we saw inflation, CPI for food, around 4 percent, which is certainly higher than the 2.5 percent or so that we have averaged for a long time over the past 5–7 years. This year we are seeing slightly higher increases. We are thinking somewhere between 3.5 to 4.5 percent. Some of that is largely because big components of the food price bill are meats. We are seeing flat meat prices. In fact, in some cases for pork, we have seen some decline in prices.

Senator BENNETT. People in WIC usually do not eat that much meat.

Dr. GLAUBER. No. That is right.

Senator BENNETT. The grain situation——

Dr. GLAUBER. No. You are absolutely right.

Senator BENNETT [continuing]. Hurts them far more.

Dr. GLAUBER. That is right.

So if you focus on individual components, dairy, for example, is big. Again, I think that we are seeing dairy prices come down and we are likely to see some decline in dairy prices this year.

So you are absolutely right, and that is part of the previous question, of course, on food aid overseas. That is also a big component there where, certainly in lower income countries, the price of the underlying commodity as a proportion of the overall price that consumers pay is much, much higher than it is in the United States.

Senator BENNETT. Are you anticipating that the price will come down? The President's budget projects an increase of 2.3 percent, which is in line with what you have just said. Are conditions in Australia and New Zealand and Europe——

Dr. GLAUBER. Yes. We are expecting production to snap back in that region. They had 2 years of back-to-back droughts, and it looks like conditions are returning more to normal there. We are expecting a better crop in Europe.

But it is important to understand that on the other hand, we are looking at a very, very low stock situation, and I do not want to minimize that. We have very low wheat stocks. We have very low corn stocks, both near historic lows, given the size of the economy now compared to, say, 50 years ago, very, very low stocks-to-use ratio, which is a critical factor when we look at price projections.

And for that reason, I think the markets will be focused very much on weather this year, and what we see in terms of the crop progress over the next 4 or 5 months I think will be very critical.

Senator BENNETT. So you talk about the wheat price. Is that driven in part by the desire to plant more corn and thus take up acreage that would otherwise be planted in wheat? We hear that theory.

Dr. GLAUBER. I would say maybe to a limited degree. There is competition there. Understand that a lot of the area that is planted to wheat in a lot of the areas is less suitable for corn. Now, when corn gets to be \$5 to \$6 a bushel, a lot of areas look a lot better than they might have when corn was going at \$2. But I think——

Senator BENNETT. Just like oil.

Dr. GLAUBER. Yes, that is right.

But we do expect wheat prices to come down as the world crop comes on. Again, I think that a lot will depend on the size of the northern hemisphere crop this summer. Our plantings are actually up this year for wheat. So people were able to plant more wheat despite the competition with corn and very, very high soybean prices.

Senator BENNETT. Thank you. That was helpful.

AFRICAN WHEAT STEM RUST

I understand, Mr. Secretary, that you need to do what you can to deal with the President's desire to balance the budget overall, and I also understand how OMB sometimes can be less sympathetic to programs that the Department might think makes some

sense. I am not going to put you in the position of having to argue with OMB, but let me point out one thing to you.

In the November-December issue of Agriculture Research, which is the science magazine that is published by USDA, there was an article entitled "World Wheat Supply Threatened!" Whenever a scientific journal uses an exclamation point you know they probably mean it. It was about the Department's efforts to combat African stem rust with the very interesting numerical designation, UG99. It sounds like a really weird Web site. But this is a highly virulent and aggressive stem rust. It spread rapidly throughout Africa and into the Middle East, threatens world barley, wheat production and food security. And coming after the answer we have just gotten from Dr. Glauber as to the importance of what is happening in the rest of the world with wheat production, you would think this is a very big deal.

Most experts believe it will eventually reach the United States where both barley and wheat varieties are highly susceptible. And your budget proposes eliminating the funding of research at St. Paul, Minnesota that supports the agency's lead scientists working on African stem rust. It is not a big amount of money. It is \$308,000.

I will not ask the question of whether this is something that ended up on the cutting room floor at OMB and that you proposed. Deputy Secretary Conner, be careful about your nods. They might get noticed somewhere.

But I simply make the point that I would hope we can find that \$308,000 and maybe a little more because, again, given the answer we got from Dr. Glauber, we could end up spending millions, if not billions, if this particular disease gets into the American production pattern. And a few hundred thousand right now might make some sense.

Secretary SCHAFER. Yes, Senator. We estimate that 75 percent of the wheat strains in the United States are susceptible to that rust. Maybe our Deputy Secretary could outline the reasons that were taken here and also the approach we are taking to consider this issue and its impact on the wheat supply in the United States.

Senator BENNETT. I do not need to take any more time of my colleagues. You can supply that for the record.

Secretary SCHAFER. We will.

[The information follows:]

STEM RUST RESEARCH

The Agricultural Research Service (ARS) is leading a national cereal rust research effort and is making key contributions to supporting international cooperative efforts through the Global Rust Initiative to address the new African wheat stem rust. Fiscal year 2008 ARS wheat stem rust funding is \$1.1 million. ARS scientists are developing diagnostic tests for rapid identification of the disease should it enter the United States and are contributing to monitoring and surveillance. Additionally, ARS is also developing and testing several new techniques that show promise in monitoring of wheat stem rust epidemics and for characterizing new races of cereal rust pathogens. A set of microsatellite DNA markers for the stem rust fungus has been developed; these workers are useful in tracing the geographical origins of new races of stem rust. Seedling evaluations are being conducted against African stem rust races to test the susceptibility of U.S. wheat varieties. ARS funding for wheat stem rust in fiscal year 2009 is estimated to be \$944,000. The 2009 Budget proposes to eliminate all ARS earmarked funding, including \$308,000 at the Cereal Disease Laboratory at St. Paul, Minnesota.

In fiscal year 2008, the Cooperative State Research, Education and Extension Service (CSREES) plans to fund 1–2 competitive grants totaling \$248,000 for aerobiology modeling of Ug99 for assessing potential pathways, timing of incursion and to support rust surveillance. An additional \$20,000 in Hatch Act funds will support wheat stem rust research. In fiscal year 2009, CSREES estimates \$20,000 in Hatch Act funds will support wheat stem rust research.

Senator BENNETT. I will simply indicate that as far as I am concerned, I would like the committee to put that \$308,000 back and help you out.

FOOD COSTS FOR WIC PROGRAM

Finally, let us talk about WIC some more. The food costs have increased enormously. Participation has gone up, demonstrating the inability of people to find the necessary food on the basis of their own salaries. As these costs go up along with the signs of the weakening economy, people need help with food.

We have asked for a report from the Department. In the report accompanying our fiscal year 2008 appropriations bill, we requested monthly reports on amounts necessary to fund WIC in fiscal year 2009. We were hoping to avoid the situation we had in fiscal year 2008 where the subcommittee had to provide \$633 million above the President's request when we had not previously heard any information from the Department that WIC needs had increased. So the \$633 million was a surprise.

The reports were to include projections for food costs and participation and clearly explain how those projections differed from the assumptions made in the budget request and how they would impact the WIC program in 2009.

Well, we got the first report. It was 2 months late, and unfortunately, it was inadequate. The second report was significantly better, but still did not provide an assessment for what the current participation trends and food costs mean for the fiscal year 2009 budget. And I would like to know why the report has been delayed, and do you think the level of detail in future reports can be adequate to the needs that we have talked about?

Secretary SCHAFER. Thank you, Mr. Chairman. I would note—

Senator BENNETT. You are promoting me. The chairman is to my right.

Secretary SCHAFER. I am sorry, Senator Bennett.

I appreciate all of your concerns about this WIC issue. We do use our best estimate of participation of 8.6 million participants in this program for the 2009 budget.

As for the reports, I am going to ask the Deputy Secretary to talk about the process of getting you more timely reports with the information you need.

Mr. CONNER. Senator Bennett, it is certainly our full intention to comply with those monthly requests. Again, I think we would acknowledge the first report—, we were ironing out some of the kinks, and I think the one we got to you recently, I think late last week, I believe is much more in line with what the committee has in mind to monitor this.

We have a little bit of a problem here, as you know, Senator Bennett, the development of a Federal budget is a 7-month process that we will begin again around the first of August for next year's budget. In this last budget, I will tell you that during the course

of time that we were developing our budget, the numbers were changing on WIC pretty substantially and we were chasing that number a little bit, if you will. There is a 3-month delay in the data in terms of it coming in, and so it requires a little bit of time to filter that into the process.

We are going to get you the absolute best data that we have got as quickly as we have it available. You do not need bad data from us, and obviously, we do not want to give you bad data. But as soon as those numbers become available, we are going to get that information to you. We want to work with this committee. And I will tell you OMB wants to work with this committee as well.

We had excellent cooperation with them in the development of this year's budget in that, late in the game, we came in and said our numbers show the need for more for WIC. They gave that to us, frankly, without asking us to take it out of anywhere else. And so we have had good cooperation.

This is one of those unfortunate circumstances where the numbers are changing quicker than what our system oftentimes is prepared to deal with. But I think between your work and the information we provide, we will get through this and get you the information you need to make the right decisions here.

Senator BENNETT. Thank you very much, and thank you, Mr. Chairman. You have been very generous with allowing me this time. I appreciate it.

Senator KOHL. Thank you very much, Senator Bennett.

Senator CRAIG.

Senator CRAIG. Mr. Chairman, thank you very much.

Mr. Secretary, gentlemen, thank you for being with us.

Mr. Chairman, let me ask unanimous consent that any opening remarks that I prepared become a part of the record.

Senator KOHL. It will be done.

Senator CRAIG. Thank you.

COMMODITY PRICES

Mr. Secretary, I would like to ramble a bit because, obviously, the chairman and the ranking member have picked up on rising food costs and its impact on poorer people and the need to fund those programs.

Having said that, I am an unabashed supporter of high commodity prices because it is doing something to American agriculture that you and I and others have fretted and stewed about for decades. How do we change the aging trend in the American farmer? How do we change the disinvestment in the agricultural portfolio and see reinvestment of a kind that will keep agriculture modern and aggressive and ongoing?

And the way you do that is profitability and higher commodity prices. For whatever reason, the last few years have created some of those trends. There is no doubt about it. You go into farm country today. You walk across it. You hear a dad saying, you know, my son has just decided to come home and farm with me or my daughter has. And 5 years ago, they were not even talking about that. Why? Because they can come home to a lifestyle and a business that has some dynamics to it today. That is very exciting to me.

I drove by a—I will not give the brand name—an implement lot recently, and there were 55 new combines sitting on the lot. And I asked a farmer in the area: Who is going to buy all those combines? And he smiled and said, Larry, they are already sold. There is not a combine available in the market today for another 6 to 8 months. The same way with tractors. Farmers are reinvesting in the agricultural portfolio of America because it is profitable. For what reason? A lot of reasons.

I just returned from Ottawa yesterday, Mr. Chairman, from looking at a cellulosic ethanol plant, knowing that that is where we have got to go because some would argue, gee, we have disrupted the food chain with corn-based ethanol. And this Congress is now aggressively awakening to the reality that we have become so dependent on foreign oil, we ought to become independent of it. And we are working to get there now. It is a good deal. It is a good idea.

At the same time, on the way back from Ottawa last night, I for the first time was spending more time reading the ethanol magazine, and I was counting the number of new plants under construction as we speak. That represents about 4.2 billion gallons annually coming into the market in the next 12 months. Now, that is in addition to the current 7.8 billion gallon capacity. All of a sudden, we are bumping the 15 billion that we thought would be the limit for corn-based, very, very quickly. That is pretty exciting. But it also demands that we do our part.

And it is going to be very fascinating, Mr. Chairman, to see the land base shift out there and adjust. There are already all kinds of reactions going on about how that happens.

So with all of this new positiveness comes a kind of a stress and a need for research and the types of things that USDA, in cooperation with its land grant universities, have done so very well over the years. And your budget dramatically reflects the opposite. And that is very frustrating to me. Yes, profitability brings new investment in American agriculture, but the kind of research that Senator Bennett was talking about, as it relates to that rust, the other kinds of research that keep pushing us to the cutting edge in technology to advance these causes in American agriculture today is phenomenally important. And I do not think your budget adequately reflects that.

FARM BILL

Let me turn to another issue. The week before last, I spent a week traveling around Idaho, talking to farmers and ranchers, mostly regarding agricultural issues. All are very frustrated that we cannot work out this farm bill issue. It is a symbol of the inability of a government to function and function in a timely and responsible manner. And you can and I can make all of the excuses, and it really does not quite fit. It speaks to our collective dysfunctionality. And so we ought to really work to get it done and not extend it for another period of time in my opinion and I think the opinion of American agriculture. I think I am reasonably reflective of that.

We are going to become the third largest dairy State in the Nation. We have got about 560,000 cows milking in Idaho right now. So we are going to break those numbers very quickly, and that

brings both opportunity and problems. Research again becomes very, very important to us, how you manage large herds and how you manage waste and all of that. That is in cooperation.

But the biggest issue that is not, nor can it be, reflected by this budget—but I would hope that it would become reflected by your rhetoric—is the biggest in Idaho agriculture today, and it has been a long time coming because they have been hiding behind their combines or hiding behind their cows because the issue was so politically charged they did not want to deal with it and now they have got to. And that is the hands to milk the cows and operate the equipment and work the rows. It is labor.

American agriculture last year guesstimated—and maybe our economist can tell us we dropped \$8 billion at the farm gate, rotted in the fields, could not pick it, could not deliver it, could not process it. I have got potato lines in our plants in Idaho down right now because we cannot supply them with workers. And it is possible, even though we have become very good at storing spuds, that some might rot in the cellars because we cannot get them into the boxes and out to the market. And we talk about prices going up, and yet we cannot deliver to the market.

We have lost maybe a quarter of a million acres of vegetables in the San Joaquin Valley in this cropping season. It has gone to grains and hays and other things because their hands are not there. And those acreages have moved across the border into Mexico and gone on to Chile and possibly to Brazil.

The exportation of American agriculture production today, because this Congress cannot get it right about immigration, is tragic. And there is a bit of a panic in farm country as to what we do because we have not done what we need to do. And our borders, which we should secure, are securing.

Well, that is an extension to my opening remarks, a bit of a diatribe, but a very important one I think.

Am I out of time, Mr. Chairman?

Let me thank you, now that I have had your ear, for potato cyst nematodes and the resources that you have helped provide the potato industry in Idaho when we had an outbreak and have worked to contain that problem and are doing quite well by it now, a potentially ruinous problem to a \$2.9 billion potato industry. And we need a little more help there. The work that has been done I think has been very effective in its eradication, at least in its containment and hopefully its eradication. A very little amount of money, but \$1.8 million goes a long way because farmers and researchers know how to stretch it. So we cannot compromise. We have got to finish it and complete it. We have isolated it and we hope to have your help in doing so.

Lastly, food safety issues are critically important. The funding of the National Veterinary Medical Services Act is awfully important to us.

From those standpoints, the budget is inadequate. And I understand the squeezes. We will work with the chairman and the ranking member to resolve these issues. I did not think that a continuing resolution for budget purposes this year, because of the politics that America is in right now, would be a good idea because it talks about our inability to get things done. But in all fairness,

Mr. Secretary, when I look at your budget, maybe it is not a bad idea, at least for the short term.

PREPARED STATEMENT

I really have no questions of you. We will put the rest in writing. But there is a lot of good news and a lot of frustration out in farm country today. And I do not mind us moving away from a cheap food policy. We just need to simply make sure that those who cannot afford food are cared for at a time when profitability and investment are returning to the agricultural portfolio of America.

Thank you.

[The statement follows:]

PREPARED STATEMENT OF SENATOR LARRY CRAIG

Thank you for appearing before us today to discuss USDA's fiscal year 2009 proposed budget.

We are in an interesting time given the current status of farm bill negotiations. There is a great deal of uncertainty among our Nation's farmers and ranchers regarding what the next 5 years of farm policy will look like.

I hope that we can finalize this process and get it to the President—and that he will sign it—to give some much-needed certainty to our farmers and ranchers that are right now making planning decisions in the dark.

I understand the difficulty of putting together a budget under these uncertain circumstances. Couple that uncertainty with an extremely tight budget and we have a serious challenge on our hands.

Without spending too much time parsing over the elements of the Department's budget proposal with which I agree or disagree, let me just point out a few particular areas of concern.

The first is in regard to agriculture research. I think we all agree that the current status of our domestic agriculture industry is a product of decades of innovation—fueled by a strong investment in agriculture research.

Though I appreciate the idea of more collaboration and greater “efficiency” in research, I become very concerned about the consequences of terminating or drastically under-funding critical areas of research in this country.

One of the research units proposed for termination is the ARS Land Management and Water Conservation Research Unit in Pullman. This unit has played a leading role in the development of science-based solutions to agricultural and environmental problems of the Pacific Northwest.

We must not lose sight of the value of our land grant institutions, and the value of the formula dollars that we direct their way. Many of our land grant universities—including the University of Idaho—utilize those formula dollars to invest in extremely valuable long term, core agricultural research programs that cannot be effectively managed or supported through multi-state or short term granting mechanisms.

Switching gears, I believe that your dedication to the areas of pest and disease management is extremely vital to the health of our domestic agriculture industry.

Take, for example, our collective efforts over the last year or so to eradicate potato cyst nematode. This pest threatened to devastate our State's potato industry, and that of the nation.

Thanks to adequate funding and a rapid response, we have likely prevented this pest from becoming even more expensive to control, and more devastating to the industry. Our work there is not done yet—we need to continue to provide adequate funding for programs like this to remain effective.

Likewise, the USDA has a significant challenge in safeguarding the health of our Nation's livestock—for purposes of national security, public health, the safety of our food supply and health of our animal agriculture industry.

I am encouraged to see that USDA continues to focus on this area, reflected by an increase in the budget for disease monitoring, surveillance and response programs.

However, I fear USDA continues to miss a key priority in bolstering the numbers of our “first responders”—those large animal veterinarians willing to practice in rural areas; a breed that is largely disappearing.

Smaller farms in rural areas of Idaho are facing significant—and growing—challenges in finding veterinarians to service their herds. We have several counties in

Idaho without a single food animal veterinarian. Several counties have upwards of 50,000 food animals per food animal veterinarian. Rural, large-animal veterinarians are themselves becoming an endangered species, and we must do something to restore their "population." If not, we risk losing the important first responders when it comes to disease threats.

There is immeasurable value in dollars spent to find solutions to current and emerging animal diseases. However, if there is no one to identify, prevent and treat these diseases once they emerge, our money spent on research is much less fruitful.

I point out only a couple of these issues to highlight the difficult job ahead of utilizing limited dollars wisely.

I look forward to working with you, Mr. Secretary, as we move forward on our fiscal year 2009 priorities.

Senator KOHL. Thank you, Senator Craig.

Senator Cochran.

Senator COCHRAN. Mr. Chairman.

Thank you, Mr. Secretary, for being here and helping us understand the President's budget request for the Department of Agriculture and related agencies.

Let me first ask unanimous consent, Mr. Chairman, that my prepared statement be printed in the record.

Senator KOHL. Without objection.

[The statement follows:]

PREPARED STATEMENT OF SENATOR THAD COCHRAN

Mr. Chairman, thank you for holding this hearing on the fiscal year 2009 United States Department of Agriculture budget. I welcome Secretary Schafer to the committee. I would also like to congratulate Dr. Joseph Glauber on his recent appointment to Chief Economist for the United States Department of Agriculture and look forward to working with you and your staff.

An important aspect of the Agriculture appropriations bill is the funding it provides for agriculture research. This research is a critical part of ensuring that U.S. producers remain the leaders in food and fiber production. The funding this bill invests in agriculture research is a small sum compared to the economic benefit it has on a farmer's bottom line. I am concerned about the administration's recommendation to reduce agriculture research

funding by \$170 million from last year's enacted level. Agriculture Research continues to influence production agriculture by giving producers better varieties for quality and yield, identifying new methods for treatment of pests and diseases, and developing agriculture practices that reduce environmental effects such as sediment runoff and carbon release. Congress should continue to make investments in agriculture research.

The requested increase of \$480 million for the Women, Infants, and Children Program provides evidence that the rising cost of food continues to be a problem for both the Department and consumers. This problem is not limited to the United States. The United Nations' World Food Program announced that from October 1, 2007 through February 1, 2008, the cost of its program rose 41 percent in that 5 month period. Congress has been able to allocate additional funding for the Women, Infants, and Children

Program through previous emergency supplemental appropriation bills. It is my hope that the Department will keep the committee informed as to whether additional funding will be required above the current fiscal year 2009 request.

Once again, I welcome the Secretary and look forward to his comments.

Senator COCHRAN. I mention in the statement the importance of agriculture research and worry about the fact that the budget request is about \$170 million below last year's enacted level of funding. But this is not unusual for the Department to submit a budget request that they know is going to be increased. So it will not be a shock to you. And I am proud to associate myself with the remarks of the Senator from Idaho about the importance of agriculture research. It helps improve our profitability in production agriculture. It helps create jobs in the processing and exporting in-

dustries. And these are big factors in our own economic well-being. And I know you understand that. So you will not be surprised if you see us increasing those numbers a little bit.

We do need your guidance and observations about offsets because we do not want to overspend and injure the economy by running up deficits that threaten overall economic health too. So we know we need to work together, and I look forward to doing that.

COLOMBIA TRADE AGREEMENT

In that connection, I think the administration deserves praise for negotiating trade agreements that help enable our producers and exporters to realize profits in the international marketplace. I know we have coming before the Senate a Colombia trade agreement. Let me ask you if the Department of Agriculture supports the ratification of that, and what comments can you make that would give us some reason to be strong advocates of that position?

Secretary SCHAFER. We do very much support the ratification of the Colombia Free Trade Agreement. I was fortunate to be with the President yesterday when he made the announcement that he was sending this legislation to the Hill. And I was there because of the importance of free trade agreements, bilateral agreements and multilateral agreements, to the agriculture community.

We would note that—and I mentioned it earlier—the agriculture sector is the positive trade balance sector of our economy, and we also note that last year that 40 percent of the GDP growth in this country was led by exports. We think exports are important. I can tell you from my State, North Dakota, 50 percent of our agriculture products are exported from this country. And that is duplicated State after State after State.

The issues of national security and combining with an ally in South America with a democratically elected government are strong, but the issues of agriculture, we think, are most important. As that country is moving away from illegal production and growth of drugs and crops to make drugs and moving into legitimate, honest, and legal products and crops, it is important that we support that government. As we import our products there, jobs are created. People have better opportunity. As they export their products to us, they provide economic opportunity for the people there.

For the people of the United States of America, we are already importing 99 percent of the products from Colombia duty-free. On the other hand, our products that go down there contain levels of duty ranging from 5 percent to well into the 70 percent range. And I would note that upon ratification of this treaty, 70 percent of the products that we currently ship to Colombia go duty-free; the rest, over time, those tariffs and duties disappear. That provides economic opportunity for our current exporting levels.

Also, if you look at the importance of trade with the Peru agreement that was passed, if you add Colombia, Korea, and Panama, those four provide \$3 billion of annual opportunity for agriculture exports. We think it is important for this country, and we urge the ratification of this legislation.

Senator COCHRAN. Thank you.

Thank you, Mr. Chairman.

Senator KOHL. Thank you, Senator Cochran.

Senator Specter.

Senator SPECTER. Thank you, Mr. Chairman.

Mr. Secretary, we welcome you here and note your distinguished record as Governor of North Dakota and thank you for undertaking this assignment in the last year of the administration.

In reviewing the proposed budget, I am pleased to see that the budget fully funds the Department's three major nutrition assistance programs, food stamps, school lunch, and WIC. But the funding has been terminated for the Commodity Supplemental Food Program. It is a program that I have consistently supported, and we are going to try to find a way to put that \$100 million back in the budget because it is an important program. And I would appreciate your taking a look at that.

Food safety has an increase of \$22 million at a funding level of \$952 million, and I would appreciate it if you would take a look to see and give us a written response on the adequacy of that amount of money, considering the very serious problems there are.

As you have noted, this is a very busy place. Senators come and go. I am due on the floor 6 minutes ago on the housing bill. So I am not going to be able to stay to have a dialogue. But if you would give an analysis to the subcommittee on that, I would appreciate it.

CONSERVATION

With respect to conservation, I am concerned about the 15 percent decrease from fiscal year 2008 where there is elimination of funding for Watershed and Flood Prevention Operations, Watershed Surveys and Planning, Healthy Forest Reserve, Resource Conservation and Development. And I would like your responses to the impact of that 15 percent decrease and your Department's analysis, your analysis, of the importance of those programs.

On agriculture research, I note that the fund is down 10 percent, or more than \$100 million, from last year. And 11 labs are closed, including one at University Park, Pennsylvania. I know the important work that Penn State does. Here again, I would like you to give us an analysis as to whether that shortfall could be made up in some other way.

You have a large budget, but you need a large budget. You handle a Department which has more Senator interest, I think, than any other Department perhaps, with the exception of the Department of Defense. Well, there are many Departments that have a lot of concerns, but the Ag bill draws more interest. The Department of Justice is very important. I serve as the ranking on Judiciary. But we legislate every 5 years on the Ag bill, and that draws tremendous, tremendous member interest.

So if you would take a look at those areas and give the subcommittee a written response, I would very much appreciate it.

Again, thank you for taking on this tough job.

[The information follows:]

FOOD SAFETY BUDGET REQUEST

The President's budget request is adequate to cover the cost of Federal meat, poultry, and egg products inspection as well as Federal costs for equivalent State inspection programs. An increase for the FSIS inspection program is requested to maintain our high standards for the safety and wholesomeness of meat, poultry and

egg products and our continued efforts to ensure effective inspection and policy implementation. This appropriation request includes funding an increase in pay and benefit costs, which make up approximately 80 percent of FSIS' budget; an increase for costs of the State Meat and Poultry Inspection Programs; and an increase to support Federal responsibilities added due to the takeover of the New Mexico State program.

CONSERVATION FUNDING

Watershed Rehabilitation Program

The fiscal year 2009 President's Budget proposes a reduction in discretionary funding for the Watershed Rehabilitation Program, although mandatory funding is available. The Watershed Rehabilitation Program addresses the problem of aging dams, especially those with a high risk for loss of life and property. This reduction reflects the administration's position that the maintenance, repair, and operation of these dams are primarily a local responsibility since program benefits are highly localized. A reduced level of discretionary funding will provide technical assistance to address those dams with the greatest potential for damage.

Watershed Operations and Small Watersheds Programs

The fiscal year 2009 President's Budget proposes no funding for the Watershed Operations and Small Watersheds programs. Through the Watershed and Flood Prevention Operations Program, NRCS provides local communities with technical and financial assistance to construct flood prevention, water supply, and water quality improvement projects. Since most program benefits are highly localized, the Agency anticipates that those Public Law 534 and Public Law 566 projects not yet completed will continue to receive strong local support from project sponsors.

Watershed Surveys and Planning Program

The fiscal year 2009 President's Budget proposes no funding for the Watershed Surveys and Planning Program. The Watershed Surveys and Planning Program authorities are directed toward assessment of natural resource issues and development of watershed plans to conserve and utilize natural resources, solve local natural resource and related economic problems, avoid and mitigate hazards related to flooding, and provide for advanced planning for local resource development. With the elimination of Watershed and Flood Prevention Operations, continuation of the planning component is no longer necessary. Since the benefits are highly localized, local sponsoring organizations as well as State and local governments are expected to assume a greater role in identifying and addressing water resource problems.

Resource Conservation & Development Program

The fiscal year 2009 President's Budget proposes no funding for the Resource Conservation & Development (RC&D) program. The purpose of the RC&D Program is to encourage and improve the capabilities of State and local units of government, and local nonprofit organizations in rural areas to plan, develop, and carry out programs for resource conservation and economic development. The program provides technical assistance to local communities to develop strategic area-wide plans that address their locally identified natural resource and economic development concerns. Many RC&D councils have received Federal financial support for at least 20 years. At this point, most of these communities should have the capacity to identify, plan, and address their identified priorities. In addition, a Program Assessment Rating Tool (PART) evaluation determined that the program is duplicative. The PART concluded that the program duplicates other similar resource conservation planning, rural economic development, and community programs provided by other USDA agencies (such as the Forest Service and Rural Development) and other Federal departments (such as the Department of Commerce's Economic Development Administration).

Healthy Forests Reserve Program

The fiscal year 2009 President's Budget proposes no funding for the Healthy Forests Reserve Program (HFRP). The HFRP assists landowners in restoring, enhancing and protecting forest ecosystems to promote the recovery of threatened and endangered species, improve biodiversity, and enhance carbon sequestration. The administration's farm bill proposal consolidates this program as part of a combined Private Lands Protection Program.

AGRICULTURE RESEARCH FUNDING

Many difficult choices were made in developing the Department's fiscal year 2009 budget in order to advance the President's goal of achieving a balanced budget by 2012, while also encouraging economic growth and security.

The reduction in research funding is primarily due to the termination of earmarks consistent with the administration's policy, and a reduction in lower priority research in favor of higher priority research, including bioenergy research.

The decision to terminate or close programs and locations was based on specific criteria which include whether the facilities have reached their useful life span or have such high maintenance and operating costs that it is no longer feasible or possible to keep them open; closing these locations and moving personnel to newer facilities or to those that conduct related research, will enable a larger critical mass of Agricultural Research Service (ARS) scientists to address issues in a more efficient manner; and finally, some of the research is no longer relevant to the mission of ARS or has matured to the point that discontinuing it and closing the locations is the best use of limited resources.

In focusing on the need to redirect and reallocate limited ARS resources to higher priority research initiatives and to provide funding that would support the administration's goal of deficit reduction and economic growth, programs were reviewed for relevance, quality, impact, and cost effectiveness.

Senator KOHL. Thank you, Senator Specter.
Senator Craig.

RESEARCH FUNDING

Senator CRAIG. Again, Mr. Chairman, thank you.

Mr. Secretary, one last thought. As we look to budgets and we look to consolidating resources but continuing to provide quality resources in a variety of areas, especially in research, as you know, out in Idaho and Washington we have the uniqueness of having two land grant universities 8 miles apart, Washington State University and the University of Idaho. And there is an increasing cooperative effort between the two as it relates to the land grant responsibility and the agricultural needs of that whole region of the country. And as a result of that, I think the Federal Government gets a lot more bang for its buck because when we deal with cold weather crops and we deal with large animal science, it is all the more important.

I mentioned the growth of dairy in Idaho and that is a unique phenomenon of location and climate and space and the modernness that our dairy industry is moving into. But as a result of that, when you go to large, confined operations of 5,000 and 6,000 and 8,000 and 10,000 animals, the science of it becomes awfully important. The health of it becomes awfully important.

Idaho is preparing to invest heavily in a world-class dairy science center that will spread beyond that to large animal reviews, waste management, anaerobic digestion, a whole combination of things. And the State is willing to make that investment. ARS will be a player there. They must be a player there. It is too good of an opportunity to pass up for that kind of world-class science to be revisited and brought modern both with facility and location and need.

So when I look at these research dollars and research budgets, whether it is the Land Management and Water Conservation Research Unit at Pullman, Washington, extremely valuable for that high production cropland in the Palouse country in the Pacific Northwest and the work that has been done there, and I look at large animal science that the University of Idaho in cooperation with world-class animal science, as the president of Washington

State just spoke to recently, your budgets do not serve that very well.

For example, your proposal would force the University of Idaho to eliminate 58 faculty or staff positions. Now, that is a phenomenal hit and one that I will make every effort not to tolerate. And I say that in a broader sense. I am going to have support. I am going to have the Senators from the State of Washington supporting me, the Senators from Montana and Oregon and surrounding States because the work we do is very transparent and very important to the agriculture of that region.

And so, again, I say that—how do we justify? I guess my only question because I will be submitting some to you. How do we justify this sort of significant departure from traditional distribution of Hatch Act funding as it relates to these kinds of programs both in the long-term and short-term value that our land grant university research has always produced for us? Because it is regional. It is national. It fits the need locally and area-wide. What do we do?

Secretary SCHAFER. Thank you for the question, Senator Craig, and it is an important one.

As you know, we removed about \$185 million in research funds from the budget in an effort to look at our limited resources and how they most wisely can be spent. Most of those were earmarks for specific facilities and specific programs.

As we looked at the budget, recognizing that we do have some constraints if we are going to put us on a pathway to balance the budget by 2012, we wanted to make sure that we played our part in that.

The administration believes and we at USDA believe that by competitive grant sources, we can better focus the research where we get the best research and the best outcome, that while we are requesting the removal of earmarks for facilities, we still have grants available. You mentioned several States, and it was mentioned today, closing facilities, I should point out that being from North Dakota, one of those facilities for proposed closing is in North Dakota. So I am well aware of the situation.

But I think as we look at the grant opportunities, we at USDA are going to focus on the priorities, some of which you mentioned. But as we look at those priorities, we are going to provide the grant dollars on a competitive basis for facilities to do that. We think that allows us to wisely use the limited dollars that we have.

Senator CRAIG. Well, I can appreciate the priorities and I can also appreciate the fiscal soundness of decisions. One of the great values of land grant systems spread nationwide is that it dealt locally and regionally in ways that became national in value when oftentimes not seen from the 30,000-foot level by USDA. And we all know that has been the case time and time again throughout the history of the modernizing of agriculture as we worked aggressively to do it over the last good while.

So we will work with you and certainly with the committee to help establish some of these priorities.

ADDITIONAL COMMITTEE QUESTIONS

I will submit the balance of my questions in writing. Thank you. Senator KOHL. Thank you very much, Senator Craig.

And we thank you, Mr. Secretary, and your colleagues for being with us today.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR HERB KOHL

HUMANE SLAUGHTER

Question. Can you provide an update on what is happening with recalled food that wasn't part of Federal nutrition programs? How much is still out there, and how much do you realistically believe we will ever collect?

Answer. It is the responsibility of the recalling firm, and not FSIS, to ensure that consignees are notified of the need to retrieve and control recalled products. FSIS does conduct effectiveness checks for all recalls, and when this case is closed, the agency will report to the Committee the amount of product recovered.

Question. The FSIS budget doesn't include any increased funding, other than for employee pay costs and to cover the cost of the New Mexico program. Would additional dollars, either for more inspectors or more training, be beneficial?

Answer. The President's budget request is adequate to cover the anticipated cost of providing Federal meat, poultry, and egg products inspection as well as the Federal costs for equivalent State inspection programs. An increase for the FSIS inspection program is requested to maintain our high standards for the safety and wholesomeness of meat, poultry and egg products and our continued efforts to ensure effective inspection and policy implementation.

Question. What is the status of the proposed rule to permit FSIS to list in its recall press releases the names of retail consignees? Please provide an explanation for what types of recalls (Class I, Class II, etc.) will be included and excluded.

Answer. USDA submitted a draft final rule to the Office of Management and Budget for review under Executive Order 12866 on April 8, 2008. As a general rule we do not discuss draft content of rules currently under review. Upon completion of review, we will publish the final rule in the Federal Register. The preamble to the final rule will include an explanation of decisions made with respect to the rule-making.

FISCAL YEAR 2008 WIC BUDGET

Question. Mr. Secretary, does USDA still believe, as Undersecretary Johnner stated a few weeks ago in front of the House of Representatives, that the fiscal year 2008 budget request for WIC was adequate?

Answer. The information available at the time indicated that this was the case. More recent year-to-date WIC participation and food cost data suggests that program costs for fiscal year 2008 will exceed levels anticipated in the President's fiscal year 2009 budget and funded by the fiscal year 2008 Consolidated Appropriations Act. Our current analysis of fiscal year 2008 program performance indicates that without additional funding there would be a fiscal year shortfall even after the release of the remaining \$150 million of contingency resources. For this reason, I am reviewing options that include transferring funds from the Food Stamp Program contingency reserve to the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) to address funding shortfalls in that program.

Question. How much of the contingency fund will be released in fiscal year 2008?

Answer. In fiscal year 2008, \$258 million of WIC contingency reserve funding has been made available to the States. This included \$108 million of prior year contingency funds and \$150 million provided by the Consolidated Appropriations Act, 2008 (Public Law 110-161).

Question. So, all of the funding Congress provided (again, over \$600 more than the administration requested), including the entire contingency fund, will be used. Will there be additional funding required and where will it come from?

Answer. Yes, program data suggests that program costs for fiscal year 2008 will exceed levels anticipated in the President's fiscal year 2009 budget and funded by the fiscal year 2008 Consolidated Appropriations Act. Our current estimate indicates that without additional funding there would be a shortfall even after the release of the remaining \$150 million of contingency resources.

For this reason, I am reviewing options that include transferring funds from the Food Stamp Program contingency reserve to the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) to address funding shortfalls in that program.

Question. How much is included in the budget request for the contingency reserve in fiscal year 2009, and how much of the contingency reserve does the budget assume will be needed to fund the participation levels estimated in the budget?

Answer. The President's fiscal year 2009 budget request for the WIC Program funds the contingency reserve at \$150 million. The budget request assumes that the entire \$150 million will be needed to support the projected 8.6 million person average monthly participation for fiscal year 2009. Maintaining the WIC contingency reserve, even when its use is anticipated, is important because it preserves USDA's ability to quickly and precisely target program resources to States experiencing funding difficulties.

WORLD/DOMESTIC FOOD SUPPLY

Question. Over the last year we have seen dramatic changes in the cost of farm commodities and the world food supply in general. There have been food riots in many countries, and some countries that used to export grains are now keeping them for their own use. Today, the ending U.S. stocks of wheat are the lowest in history.

Can you or Dr. Glauber give us a good overview of the United States and world food situation and the implications it has on USDA policy? How much of this is driven by shifts to energy production? How much have costs increased for livestock producers as a result of rising grain costs?

Answer. I have asked Dr. Glauber to respond to your questions for the record.

[The information follows:]

One way to provide you with an overview of the United States and world food situation is through the prices paid for food commodities. In general, higher food prices reflect tighter market conditions either through greater demand for food or higher production costs. For example, an increase in demand for agricultural commodities due to higher global income increases the prices paid for agricultural commodities and therefore food commodities. Similarly, higher energy prices increase the cost of producing and marketing food commodities. Higher production and marketing costs are then passed through to consumers in the form of higher food prices.

Recently, both greater demand and higher production and marketing costs have both been working to place upward pressure on the prices paid for food commodities. In 2007, the Consumer Price Index (CPI) for food increased by 4.0 percent, up from 2.4 percent in both 2004 and 2005. We are currently forecasting that the CPI for food will increase by 4.5 to 5.5 percent in 2008 and by 4 to 5 percent in 2009.

Retail prices for fruits and vegetables increased 3.8 percent in 2007, as fresh fruit and vegetable prices rose by 3.9 percent and processed fruit and vegetable prices rose by 3.6 percent. Price spikes in these commodities are often linked to drought or freeze damage. The CPI for fruits and vegetables is projected to increase by 4.5 to 5.5 percent in 2008 and by 3.5 to 4.5 percent in 2009.

The CPI for meat, poultry and fish increased by 3.8 percent in 2007 and is forecast to increase by 2–3 percent in 2008 and 5–6 percent in 2009. In 2007, prices were particularly strong for cattle and broilers. These strong prices generally reflected production adjustments made prior to the recent increase in feed costs. U.S. production of meat and poultry is expected to be a record 94 billion pounds in 2008. This large supply of meat is expected to limit gains in prices for cattle, hogs, broilers, and turkeys in 2008, leading to the relatively smaller increase in the CPI for meat, poultry and fish in 2008. In addition, the demand for red meat and poultry could be affected by consumers' economic concerns.

The CPI for fats and oils and the CPI for cereal and bakery products increased by 2.9 percent and 4.4 percent, respectively, in 2007. The CPI for fats and oils is forecast to increase by 11.5–12.5 percent in 2008 and 3–4 percent in 2009. The CPI for cereals and bakery products are forecast to increase by 9–10 percent in 2008 and 3.5–4.5 percent in 2009. The relatively large increases in the CPI for each of these categories reflect the relatively tight market conditions that existed for much of 2008. However, improved growing conditions in many parts of the world are expected to ease market conditions somewhat for 2008/09. Based on the July World Agricultural Supply and Demand Estimates (WASDE), global 2008/09 wheat production is projected at a record 664 million tons, 53 million tons higher than the weather-reduced 2007/2008 crop. Global 2008/2009 coarse grain production is projected at slightly over 1 billion tons, similar to the estimated 2007/2008 crop. Global oilseed production is projected at 417 million tons, a 7.8 percent increase over the 2007/2008 estimate.

Globally, there is no measure that reflects the prices paid by consumers for food commodities. One measure that has received considerable attention lately is the International Monetary Fund's (IMF) global food commodity price index. The IMF

global food commodity price index includes a bundle of agricultural commodities including cereals such as wheat, corn (maize), rice, and barley as well as vegetable oils and protein meals, meat, seafood, sugar, bananas, and oranges. Over the past 12 months (June 2007 to June 2008), the IMF global food commodity price index increased by 44 percent. However, the increase in the food commodity price index should be viewed in comparison to other prices changes. The IMF overall commodity price index rose by 62 percent over the same 12 months while the petroleum price index rose by 93 percent.

Overall, the market for most commodities remains tight by historical standards. However, as weather conditions improve in various parts of the world and oil prices ease, we would expect to see some moderation in the prices consumers pay for food in the next year.

With respect to shifts in energy production based on the latest information prepared at USDA, the expansion in biofuel production in the United States would appear to be a relatively modest contributor to food price inflation globally and in the United States. Assuming no expansion in biofuel production in the United States, we estimate the CPI for all food would have increased by 4.55–4.60 percent during the first 4 months of 2008, compared with the actual increase of 4.8 percent. Globally, we estimate the IMF global food commodity price index would have increased by over 40 percent from April 2007 to April 2008, compared with the actual increase of 45 percent.

Higher grain costs are having an impact on costs for livestock producers. The most recent Agricultural Prices report, released on July 31, 2008 by the National Agricultural Statistics Service (NASS) shows that feed price ratios have fallen considerably since last year. The feed price ratios measure the pounds of feed equal to the amount of production for various types of livestock or livestock products in value terms. For example, the broiler-feed price ratio fell from 5.2 in July 2007 to 3.2 in July 2008. The reason for the decline is that while the price of broilers increased only slightly from 2007 to 2008, the price of corn and soybeans increased by 69 percent and 88 percent respectively. As listed in the table below, the effects of higher corn and soybean prices were reflected in lower feed price ratios across all types of livestock.

Feed Price Ratio	July 2007	June 2008	July 2008
Broiler-Feed: Pounds of Broiler Grower Feed equal in value to 1 pound of broiler, live weight	5.4	3.2	3.2
Market Egg-Feed: Pounds of Laying Feed equal in value to 1 dozen eggs	10.7	7.2	5.0
Hog-Corn: Bushels of Corn equal in value to 100 pounds of hog, live weight	15.7	9.7	9.4
Milk-Feed: Pounds of 16 percent Mixed Dairy Feed equal in value to 1 pound of Whole Milk	3.16	1.88	1.82
Steer & Heifer-Corn: Bushels of Corn equal in value to 100 pounds of Steer & Heifers, live weight	28.0	17.6	17.8
Turkey-Feed: Pounds of Turkey Grower equal in value to 1 pound of Turkey, live weight	6.6	4.3	4.2

Lower feed price ratios will cause the sector to adjust. Based on the July World Agricultural Supply and Demand Estimates (WASDE), poor producer returns for broiler and turkey producers are expected to weigh on the sector, and 2009 production is expected to dip below 2008. For 2009, we expect total red meat and poultry production to decline by about 1.6 percent from 2008 levels.

WORLD/DOMESTIC FOOD SUPPLY

Question. How long do you estimate that food costs in this country are going to continue to rise? Do you feel that the current Food Stamp benefit is adequate to meet the rising demand? What about other food assistance programs at USDA and local programs like food banks, what is happening there?

Answer. In USDA's Agricultural Projections to 2017 published in February 2008, the Consumer Price Index (CPI) for food is projected to increase more than the CPI for all items in 2008 and 2009. For 2010–2017, the CPI for food is projected to average 2.28 percent annually, less than the 2.5 percent CPI projected for all items.

The Department believes the benefit levels in the Food Stamp Program, which are based on the ability of recipients to use their benefits combined with their own income to purchase a low-cost, nutritious diet, are adequate to meet the needs of the people that the program serves.

Benefit levels for food stamps, and payments for school meals and WIC food packages, are adjusted annually to respond to increased costs. Between fiscal year 2007 and 2008, food stamp benefit levels increased 4.6 percent; school meals reimbursements increased about 3 percent. We also budgeted for an 8.7 percent increase in the average cost of WIC food packages between fiscal year 2007 and 2008.

The Department has tools and policies in place to respond to changes in projected demand and costs in the domestic nutrition assistance programs. Two of the major programs the Food Stamp Program and the Child Nutrition Programs are designed to respond automatically to annual increased participation when economic or other circumstances change. The program's entitlement structure helps to ensure that benefits automatically flow into communities, States, or regions of the country in which increased numbers of eligible people apply for benefits.

While WIC, as a discretionary program, does not have this same structure, the Department monitors participation and food price trends closely to ensure that sufficient resources are available for the administration to maintain its long standing policy of serving all eligible persons seeking WIC services.

With regard to food banks, we have heard from our cooperators and others that the private food bank network, which is supported in part by The Emergency Food Assistance Program (TEFAP), is facing increased demand. In addition to the \$140 million provided in appropriated funds for the purchase of TEFAP commodities, USDA began a "Stocks-for-Food" initiative in July 2007 to barter government-owned bulk commodities with food processors in exchange for value-added agricultural products that can be distributed through USDA's nutrition assistance programs. We expect about \$90 million in commodity foods to be distributed to domestic nutrition assistance programs under this initiative.

Question. What is the outlook for the near and long term food situation? For example, what would happen if the drought in Australia continues? What happens if an exotic disease like wheat stem rust takes hold in this country? How is USDA preparing the Nation for continuing problems like these?

Answer. USDA forecasts world production, consumption, and trade for the major field crops which include the major grain staples. At this time, world production prospects for wheat and coarse grains remain very favorable for 2008. Additional detail will be provided for the record.

[The information follows:]

World wheat production is expected at record level with favorable weather supporting fall planting and crop development in most of the Northern Hemisphere countries including the major producing countries of the European Union and Former Soviet Union, and also in India, China, and the United States. With higher prices, area expanded substantially last fall in most of these countries. Price increases since that time have also spurred incentives to increase spring wheat plantings in Canada and plantings in key southern hemisphere producers such as Australia. The drought in Australia appears to have been largely broken with significant rainfall in the eastern portions of the country in recent months and very timely rains ahead of 2008 crop wheat seeding in the southern and western growing areas more recently. At this point, the possibility of a third year of drought remains fairly low for Australia; however, even a drought as serious as those in the past 2 years would mean a loss of only 10–15 million tons of production worldwide, not enough to prevent a record world wheat crop in 2008, given all indications at this time.

World coarse grains production in 2008 is expected to match or surpass last year's record level, despite a likely reduction in U.S. corn output with lower expected planted area. Although most of the world's coarse grains crop remains to be planted, record prices are encouraging increases in planted area throughout the major producing countries. This suggests record world production again in 2008 with normal weather.

Crop production remains highly dependent on weather with additional risks poised by pest and disease problems. Although pests and diseases are a serious issue, risk of major crop failures due to these threats remains relatively low. USDA will continue to monitor crop health issues and reflect the impact of crop problems in its monthly crop reporting and supply and demand estimates reports. These reports provide the public with a reliable and timely source of information about crop production and use in the United States and around the world.

EFFECT OF HIGH COMMODITIES DEMAND

Question. Because of the high demand for commodities, there is a large concern that lands that have been placed in conservation practices may be moved into farm production and, as a result, a lot of environmental benefits will be lost. Do you share that concern? What is USDA doing to help maintain the levels of water, soil,

and wildlife habitat protection that conservation programs have achieved over the last 20 years?

Answer. USDA approaches conservation with the objective of ensuring that lands can be productive in concert with a healthy environment and that benefits achieved can be maintained.

For example, USDA cost share programs provide assurances that conservation practices are maintained and that taxpayer investments are protected. Each conservation practice the Department implements has a life span attached to it and if the landowner does not maintain the practice, we can recoup our costs.

There are also pressures from a land retirement perspective that sensitive lands may go into production. The 1985 Farm Bill authorized the Conservation Reserve Program (CRP) as an option for producers with Highly Erodible Land (HEL). Any HEL land coming out of CRP and going back into production, must be farmed in accordance with an acceptable conservation plan/system in order to be eligible for certain USDA benefits.

The Department is ready to address increased requests from producers with expiring CRP contracts for conservation technical and financial assistance (cost-sharing) through the Environmental Quality Incentives Program, the Conservation Security Program, the Wildlife Habitat Incentives Program, and other conservation programs.

In the Administration's 2007 Farm Bill proposals, the Department proposed a forward looking approach in the form of a biomass reserve, which would have encouraged energy crop production on suitable lands currently enrolled in the CRP.

NATIONAL ANIMAL IDENTIFICATION SYSTEM

Question. Over the past several years, this Subcommittee has provided substantial funding to USDA for the National Animal ID program. However, this program is still not established in any meaningful way and there is a lot of frustration in the farming community and within Congress about the way this program has been managed.

What is the current status of this ID program? Do you support a voluntary or mandatory program and who do you think should pay the cost of it? How have you spent the money that has been appropriated for it so far?

Answer. A great deal of progress has been made with all three components of the National Animal Identification System (NAIS).

Premises registration is the foundation of the NAIS. Progress continues at a steady pace. Currently, participating States and Tribes have registered 461,846 premises nationwide. This represents approximately 33 percent of the estimated national total.

USDA wants to reach as many producers as possible. Recognizing the need for industry groups to be more involved in premises registration outreach efforts, USDA has initiated cooperative agreements with nonprofit organizations to advance premises registration. USDA has finalized eight agreements for this purpose.

USDA has approved six manufacturers of animal identification number (AIN) tags to produce ten devices for official NAIS use including radio frequency identification (RFID) eartags that are compliant with standards from the International Organization for Standardization. Approximately 4.2 million AIN devices have been distributed.

Last year, USDA purchased 1.5 million NAIS-compliant RFID eartags to be used specifically for current animal disease programs—such as the cooperative, State-Federal bovine tuberculosis (TB) and brucellosis programs. These tags will also be distributed in geographic areas that are at increased risk for disease outbreaks. In response to the TB detection in California in December 2007, 108,000 AIN tags have been provided to support bovine TB testing in California and Nevada. An additional 18,900 tags have been distributed to support disease program efforts in other States.

The tracing component of the NAIS continues to advance. In 2007, USDA published A Business Plan to Advance Animal Disease Traceability. The business plan detailed strategies and actions to more fully utilize the NAIS standards in existing animal health programs. The plan also works to harmonize animal identification systems with industry marketing, management, and performance recording programs to improve the overall U.S. animal disease traceability infrastructure. Seven specific strategies detailed in the plan include actions that USDA can take immediately to make an impact on traceability. While 48-hour traceability is a long-term goal, USDA is working now to reduce the length of time it takes to conduct an animal disease investigation. USDA is cooperating with States, Tribes, and industry groups to integrate NAIS standards into existing USDA disease programs and fur-

ther interoperability between technology systems. These short-term actions will help significantly in improving traceability and meeting our immediate goal for NAIS.

USDA does not believe that the NAIS needs to be mandatory to be effective. USDA believes the goals of the system can be achieved with a voluntary program as a result of standard business practices. For example, animal identification has many “drivers” that provide marketing advantages to producers. Other “drivers” may become requirements for certain markets (e.g., age verification for the purposes of international trade). NAIS animal ID has been developed to meet the needs of various programs, including both regulatory disease control programs and industry programs. Participation in NAIS provides marketing and management benefits to producers, as well as the data that animal health officials need to respond quickly and effectively to animal disease events.

Producers who choose to participate in NAIS will find many positive benefits. Contact information provided during premises registration allows State animal health officials to provide participating producers with information about disease outbreaks or incidents in their area. This will enable producers to rapidly protect their premises and their livelihood. Participating producers will also be better positioned to protect their market access and expand their marketing opportunities because their participation will provide vital information on identification and movement of their animals, necessary for animal traceability.

Because the NAIS is a State-Federal-industry partnership, the program works best if there is active involvement and feedback from the States, industry, and producers. As the NAIS has evolved, USDA has put participant feedback to work to adjust the program and address their thoughts and concerns. USDA will continue working collaboratively to ensure that the NAIS is easy to use and makes sense.

The following table shows how APHIS has obligated NAIS funding through April 2008:

NATIONAL ANIMAL IDENTIFICATION SYSTEM OBLIGATIONS

	Fiscal year				
	2004 CCC funds	2005	2006	2007	2008
System funding	\$1,813	\$4,089	\$2,466	\$6,207	\$1,412
Cooperative agreements	13,554	12,838	5,191	19,569	5,728
Communications and outreach	2,132	2,557	2,402	2,980	528
Staff and materials	319	3,928	6,424	14,185	3,819
Total, Federal Funding Obligated	17,819	23,413	16,482	42,941	11,487

Question. What are you hearing from farmers and ranchers about this program?

Answer. Overall, the feedback from producers and industry organizations from the commercial animal agriculture industry has been positive. However, some groups oppose participation in the program and will not register their premises. In addition, in some States (e.g., Missouri and South Dakota) legislation has been periodically introduced to restrict participation in the program at the State level. Producers in some areas have opted not to participate in the NAIS. However, the enhanced communications efforts, which began in May 2006, continue to address concerns.

EMERSON TRUST

Question. One of the tools to fight world hunger is the Bill Emerson Humanitarian Trust. However, in spite of the recent rising food costs and urgent need for food aid in places like Sudan and Somalia, the Emerson Trust has not been used since 2005.

Do you have plans to recommend any releases from the Emerson Trust in the near future?

Answer. Yes, the President directed that the Bill Emerson Humanitarian Trust be drawn down to provide emergency food aid through the U.S. Agency for International Development, to meet unanticipated needs in Africa and elsewhere. This action will provide an estimated \$500 million of emergency assistance this year.

Question. Do you think the Emerson Trust plays an important role in fighting world hunger and can you explain what the level of commodities and cash in the trust are today?

Answer. The Department of Agriculture and U.S. Agency for International Development (USAID) agree that the Bill Emerson Humanitarian Trust is an important tool in the battle against world hunger. It complements the traditional Public Law

480 food aid programs, particularly Title II, by making stocks available during periods of tight supply and to meet unanticipated emergency food aid needs. The Trust consists of 654,979 metric tons of wheat and about \$196.4 million in cash.

Question. Can you describe how the Trust actually works, how much do you spend on storage, and how do the commodities actually get from the storage facilities to the recipient countries?

Answer. Bulk commodities in the Bill Emerson Humanitarian Trust (wheat) are generally sold to generate funds that are used to acquire commodities needed in the recipient country, as determined by the USAID. CCC purchases commodities requested by USAID with the sales proceeds from the wheat, and arranges for transportation from U.S. port locations to recipient countries. Another method is to swap CCC-owned wheat for the desired commodities.

With respect to storage costs, CCC paid more than \$936 million for wheat in the Trust from 1981 through 2007, averaging more than \$34 million per year. At the current Trust level of 654,979 metric tons, CCC will pay about \$6.9 million per year in storage costs.

Because of these costs and other considerations, holding cash rather than commodities in the Trust can be a preferred option.

COLONY COLLAPSE DISORDER/VARROA MITES

Question. A very large segment of our food supply relies of the work of natural pollinators, namely bees. However, we continue to hear about serious problems like Colony Collapse Disorder, Varroa Mites and other threats to bee species and ultimately, to our food supply.

What are you doing this year regarding these problems and what progress have you made?

Answer. The Research, Education and Economics mission area reacted quickly to lead the Federal response with the formation of a colony collapse disorder (CCD) Steering Committee which developed an action plan to coordinate Federal research. ARS is conducting research into the potential causes of CCD, including pathogens, parasites, environmental stress (including pesticides) and management stresses, and the Cooperative State Research, Education, and Extension Service (CSREES) is coordinating Federal and land grant university efforts. The 2009 budget requests an additional \$780,000 for ARS to research the role of pathogens and other stress factors in CCD and develop ways to mitigate their effects. In 2008, ARS began a 5-year Honeybee Health Areawide Project funded at \$1 million per year.

CSREES awarded \$4.1 million to the University of Georgia to study the causes of CCD and other diseases affecting bee populations.

The Protection of Managed Bees Coordinated Agricultural Project aims to improve the health of managed bee populations in agricultural systems. The research will address genomics, breeding, pathology, immunology and applied ecology to explain the causes behind dwindling bee populations. Researchers will work closely with the extension community and other stakeholders to develop and implement mitigation strategies for CCD and other significant problems.

The Animal and Plant Health Inspection Service (APHIS) will undertake a project to examine key honeybee issues. In addition to working with the Agricultural Research Service (ARS) on research regarding potential causes of Colony Collapse Disorder (CCD), APHIS is examining existing risk assessments for queen bees, packages, and germplasm from Australia, Canada, and New Zealand. Presently, importing bee-collected pollen and royal jelly for bee feed is prohibited. However, APHIS is developing a risk pathway analysis for royal jelly and bee pollen as bee food.

Question. Can you describe how your research and regulatory agencies plan to deal with these problems in this budget?

Answer. The 2009 budget requests an additional \$780,000 for ARS to research the role of pathogens and other stress factors in CCD and develop ways to mitigate their effects. In 2008, ARS began a 5-year Honeybee Health Areawide Project funded at \$1 million per year.

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search Service (ARS) on research regarding potential causes of Colony Collapse Disorder (CCD), APHIS is examining existing risk assessments for queen bees, packages, and germplasm from Australia, Canada, and New Zealand.

VARROA MITES

Question. Senator Inouye has brought to my attention that the varroa mite has suddenly appeared in Hawaii and this poses a special threat because many of the honey colonies that are used in this country are actually produced in Hawaii.

Senator Inouye has asked me to submit some questions for the record on his behalf, which I will, but can you tell us if you are aware of this problem, how serious you think it is, and what you are doing about it?

Answer. Varroa mites were recently found on the island of Oahu and appear to be established throughout the island. But so far, there is no evidence that the mites are present on any of the other islands. Hawaii has strong intra-island quarantine regulations in place. APHIS is providing funding to the State to conduct a survey for a variety of honey bee pests and diseases, including varroa mites. The survey will provide information to officials to help manage the situation, although once they are established, it is virtually impossible to eradicate varroa mites. There is no record of the mite ever having been eradicated.

RURAL DEVELOPMENT AND RENTAL ASSISTANCE—ABSENCE OF A SOUND STRATEGY

Question. Rental assistance provides funding to help very low income rural families so they don't have to spend more than 30 percent of their incomes on rent. Recipients are typically elderly, handicapped, or female-headed households, with average household incomes near \$12,000. If this assistance is not continued, tenants will face rents that they cannot afford and will face eviction.

Over the past several years this program has reduced from 5 years to 1 year the amount of time that families had assurances (through formal contracts) this assistance would continue. This reduction was done to provide immediate savings, help measure annual cost increases, and improve the ability to forecast future renewal needs. It was recognized that over time, there would be a large increase in annual program costs. That is occurring in fiscal year 2009 as program needs jumped from \$445.8 million in fiscal year 2008 to \$1.02 billion.

The administration was well aware of this phenomenon. However, in spite of ample lead time the administration failed to develop an adequate plan. The administration's proposal is to fund these needs by program terminations and reductions across Rural Development.

Besides forcing Rural Development to absorb over \$500 million in offsets, were other options considered?

Answer. Rural Development's first priority is to continue tenant protections in the form of Rental Assistance renewals. The administration is committed to fully meeting the need for renewals while meeting the President's goal of reducing spending and achieving balance budget. The formulation of the President's budget involved discussion of numerous options among multiple participants.

Question. What were those options and why were they rejected?

Answer. Any discussions of options are predecisional. We believe the fiscal year 2009 President's budget is the best course of action to ensure the vitality of the Rental Assistance program. It will allow us to be more responsive to program needs and will improve our ability to forecast future Rental Assistance renewals.

RURAL HOUSING AND THE SUB-PRIME HOUSING CRISIS

Question. The sub-prime housing crisis has created turmoil in housing and financial markets nationwide. But, little attention is paid to impacts on rural residents. We want to ensure that rural households receive the support and assistance needed to weather the storm.

How is the fallout in the sub-prime market affecting rural housing in general?

Answer. Information on how rural borrowers have been affected by the sub-prime home mortgage crisis is limited. However, there is evidence that a significant amount of sub-prime lending has occurred in rural areas, particularly where borrowers have limited access to traditional credit. Some of these borrowers are likely to be having repayment problems. However, the adverse impacts on rural housing markets may not be as widespread because there is less concentration of housing in rural areas and home prices tend to be lower than those in urban areas.

Question. What Rural Development housing programs are most impacted and how?

Answer. The current situation in the subprime market has had a minimal impact on Rural Development's housing programs. Our single family housing portfolio re-

mains strong with low delinquency and foreclosure rates. In ten of the last 12 months, we have experienced historical low delinquencies. Demand for the section 502 guaranteed loan program is at record levels as private sources of mortgage credit for first-time homebuyers have tightened dramatically.

Our Single Family Housing programs have seen an increase in activity, which is common when the private sector market is experiencing difficulties. We have responded accordingly and have been able to meet current demands.

Question. Although the Budget substantially increases the Sec. 502 guaranteed single family housing program, the increase is coupled with a 50 percent fee increase. Why do you believe now is the appropriate time for a large fee increase?

Answer. Most other Federal guarantee programs operate near "budget neutral;" however, the Section 502 Guaranteed loan program continues to require a taxpayer subsidy. By bringing the guarantee fee in line with other Federal guarantee programs we will be able to operate near budget neutral while providing a much greater amount of program level funding. Overall, the subsidy rate for the guarantee program will drop from 1.20 percent in fiscal year 2008 to 0.27 percent in fiscal year 2009, requiring very little credit subsidy.

Question. This Budget, again, terminates the direct Sec. 502 single family housing program. Without this credit source, particularly in the current environment, where will very low and low income rural households obtain funding for homeownership?

Answer. The guaranteed program can already provide coverage for many of the customers that would traditionally look to the direct loan program for financing. In recent years, about 30 percent of USDA's guaranteed loans for single family housing have gone to families with 50 to 80 percent of median family income, which is within the income limit for direct loans. The remaining 70 percent of these loans have gone to families with incomes between 80 percent and 115 percent of median family income. By shifting budget authority to guaranteed loans in fiscal year 2009 we will be able to increase program level funding for guaranteed lending to over \$4.8 billion. Guarantees will allow us to leverage a much greater amount of program level funding which in turn allows us to assist more rural Americans. Some of the Very Low Income applicants, those making less than 50 percent of the Area Median Income, would not be served without the 502 direct loan program. However, these individuals may be able to qualify under the guaranteed program for a more modest sized home.

FARM SERVICE AGENCY (FSA) INFORMATION TECHNOLOGY (IT) PROBLEMS

Question. Last year at this hearing the USDA Secretary acknowledged problems with FSA's legacy IT system. The system was unstable and the Agency rationed access to guard against comprehensive failure. The Secretary promised to provide a plan to develop and implement a replacement for the outdated and overloaded legacy systems. Maintenance funding was provided in the supplemental bill for short term stabilization.

One year later we remain in essentially the same situation. FSA's systems are one year older and availability to users is questionable at any time. The specter of a comprehensive system crash remains. Little confidence is placed on the replacement cost and scheduling estimates that have been provided.

Given the damage that may result from systems failure, why are we not further along regarding implementing a solution?

Answer. USDA is pleased that our business case for modernization has been approved by OMB and reviewed by GAO. All parties agree with USDA that modernizing the business delivery systems of the Commodity Credit Corporation is a priority. As soon as funding becomes available, USDA is ready to proceed.

Question. Why does this budget not include funding to address this problem?

Answer. The business case was approved by OMB in late November 2007, by which time decisions on the fiscal year 2009 President's Budget had already been made. However, we have been working with the authorizing committees to provide for the needed funding through the pending Farm Bill. We have proposed amending the Commodity Credit Corporation Charter Act to permit the use of up to \$400 million in CCC funds over the next 4 years, with offsets for collecting user fees.

Question. Are negotiations underway through the Farm Bill process to obtain adequate funding there?

Answer. Yes. USDA has had multiple meetings with House and Senate staff working on the Farm Bill negotiations. We have provided the authorizing committees with legislative language to amend the CCC Charter Act to allow for the collection of user fees to fund the modernization and stabilization projects.

Question. What is the explanation for the lack of urgency displayed by the administration regarding this critical issue?

Answer. USDA has been diligent in following all the necessary steps to gain approval of the modernization business case. OMB and GAO agree with USDA that modernizing the business delivery systems for the Commodity Credit Corporation is a priority. USDA has developed the MIDAS foundational requirements so that USDA is positioned to move forward when funding becomes available.

RESOURCE CONSERVATION AND DEVELOPMENT PROGRAM (RC&D)

Question. Mr. Secretary, the budget proposes reducing the Resource Conservation and Development program by nearly \$51 million which eliminates this program.

Will the RC&D Councils be folded into other areas of NRCS? If not, how many employees will be let go and have these employees been notified of your intentions yet?

Answer. The proposal eliminates Federal technical assistance to the 375 RC&D councils. As nonprofit organizations, RC&D Councils will still exist. At this point, most of these Councils should have the capacity to identify, plan, and address their identified priorities. The majority of the Councils have increased their partnerships and financial portfolios and will continue to bring resources to their communities.

RC&D staffing adjustments are being considered as part of NRCS' human capital analysis and plan. Since NRCS is facing significant retirements in the future, all appropriate staffing incentives and adjustments are being considered. However, specific plans have not been finalized. Implementation of any plan for fiscal year 2009 would not be initiated until Congressional action on the President's Budget is known and necessary decisions have been made. NRCS intends to retain as many RC&D staff on NRCS payroll as the overall NRCS budget will support. Skills learned as an RC&D Coordinator serve employees well in many other NRCS positions. The ability to foster partnerships, collaborate, and plan projects is essential to all NRCS field and State level technical positions. Many of these employees can be placed in other NRCS field and State office positions such as district conservationist and other natural resource positions.

Question. Has the Department ever attempted to measure the benefits to rural communities that specific RC&D councils have provided, and if so what did you learn?

Answer. Although no studies to measure the benefits to rural communities provided by specific RC&D Councils have been undertaken in the last 25 years, reporting provided through the NRCS Program Operations Tracking System (POINTS) shows that through the implementation of projects, Councils have brought between \$6 and \$8 for each \$1.00 invested by the Federal government back to their communities in the form of donated materials, professional services and volunteer time.

COMMODITY SUPPLEMENTAL FOOD PROGRAM

Question. Mr. Secretary, once again the administration is proposing to eliminate the CSFP Program. However, in the budget, the inventory at the end of fiscal year 2008 is estimated to be \$36,239,000 which is \$6,065,000 higher than the inventory at the end of fiscal year 2007.

If this program is slated for elimination, why is USDA allowing inventory buildup instead of using it to fund current program needs, especially considering that the CSFP caseload was actually decreased in fiscal year 2008 from the fiscal year 2007 levels?

Answer. The ending inventory is essentially a "rolling" figure that largely represents foods purchased/delivered late in the last quarter of one fiscal year for distribution in the first quarter of the following fiscal year. This practice is necessary to ensure continuity of service to participants as we transition across fiscal years. Until such time as the Congress adopts the President's proposal to cease program operations in 2009, we plan to carry over sufficient inventory from fiscal year 2008 to assure service continuity in fiscal year 2009. The increase in the dollar value of projected fiscal year 2008 ending inventory is a function of rising food costs and the need to meet anticipated delivery demand.

With the exception of a small volume of foods that are purchased for the program through a single annual procurement, there is no significant undistributed program inventory held at the Federal level at any time during the program year.

Question. What does USDA intend to do the \$36,239,000 at the end of fiscal year 2008 if Congress agrees with the administration's proposal to eliminate CSFP?

Answer. Should Congress choose to adopt the President's fiscal year 2009 budget request, commodities remaining in CSFP inventories next fiscal year will be re-donated for use in other domestic nutrition assistance programs, including the Emergency Food Assistance Program (TEFAP).

DAIRY PRICES AND NUTRITION PROGRAMS

Question. Over a year ago, I wrote USDA out of concern for a pending Federal milk marketing order proposal which would raise fluid, or Class I milk prices. In that letter I explained how this decision would disadvantage dairy farmers in the Upper Midwest, and attached documentation showing that the proposal was inconsistent with previous department Federal order policies.

It has been almost 18 months since USDA held an "emergency hearing" on this issue, and I presume that you must be close to a decision. Before you make that decision; however, I would like you to advise the subcommittee of any impact your proposed decision would have on the costs of the WIC program. I would also like you to consult with the Congressional Budget Office on how you estimate the impact of your decision on the WIC program, and other USDA nutrition programs, including the School Lunch program. I am interested to know if the pending decision would add to these costs by arbitrarily increasing the Class I differentials throughout the country.

It is my understanding that, under OMB internal guidance to all Federal agencies, any administrative decision that raises outlays or the cost of another Federal program must be offset by a reduction elsewhere. If you make this decision to raise milk costs, please also advise this subcommittee on how you will be offsetting the increased costs to WIC and other impacted nutrition programs.

Answer. OMB does not require offsets for impacts on discretionary programs. However, OMB may require an offset for the impact of the increase on the Food Stamp Program and other mandatory programs.

TART CHERRIES

Question. On January 8 USDA announced its intention to purchase up to 8.1 million pounds of tart red cherries. This is a matter of some importance to producers in my State and others. They point out that weather conditions in cherry growing regions have been ideal for a large crop this coming year. They fear an unmanageable carryover stocks and surplus of cherries in the coming year and would like to see USDA take further steps under this announcement by June 2008.

Could you give the subcommittee and update on your actions in this area?

Answer. The Department will complete the entire 8.1 million pound bonus cherry program as announced by June 2008. Thus far, USDA has purchased a total of 4.7 million pounds of canned, frozen and dried cherries for distribution to child and domestic food assistance programs. At present, USDA is in the process of purchasing an additional 1.1 million pounds of frozen cherries and will complete the program with a purchase of 2.3 million pounds of dried cherries.

ORGANIC PASTURE

Question. One of the central tenets of organically produced livestock and livestock products is the requirement that animals be given access to pasture. Current USDA National Organic Program Regulations require access to pasture for all ruminant animals (§205.237, §205.239).

However, in recent years, it has become clear that some organic dairies have been permitted to sell milk as "organic" even though their cows have not had access to pasture. When challenged about why they are permitting some dairy operations to skirt the pasture standards, USDA's National Organic Program has stated that the regulation is too vague for them to adequately enforce.

Therefore, the agency issued an Advanced Notice of Proposed Rulemaking to solicit input from the public about the pasture issue. In order to facilitate this process, a Pasture Symposium was convened by USDA in April of 2006 in State College, Pennsylvania to hear from certifiers, farmers, consumers, and industry regarding pasture standards. Based on input received at the Pennsylvania Symposium and subsequently, USDA had indicated its intention to issue a Proposed Rule in 2006 to update the organic standards to make a more specific pasture standard for organic livestock.

Now nearly 2 years later, no proposed rule has been issued on this issue. It is critical to the entire organic sector that USDA move forward with rulemaking to establish a strong, enforceable organic standard to require access to pasture for ruminant animals.

Please provide an update on this situation, and explain the delay. When can we expect to see a proposed rule out to the public for comment?

Answer. AMS received over 80,000 comments based on the Advanced Notice of Proposed Rulemaking (ANPR) issued in April 2006, most urging a larger role for pasture in the National Organic Program regulations. After analysis of all com-

ments, a proposed rule was drafted, which is now in Departmental clearance. AMS plans to publish it by the end of this fiscal year.

POTATOES AND WIC

Question. USDA published an interim final rule that expands the eligibility for the WIC program to include all fresh fruits and vegetables with the single exception of “white potatoes”.

Please explain the public policy and nutritional rationale for excluding fresh white potatoes from the expanded WIC voucher program.

Answer. The changes to the WIC food packages were made based on scientific recommendations from the National Academies’ Institute of Medicine (IOM). The IOM was charged with reviewing the nutritional needs of the WIC population—low-income infants, children, and pregnant, postpartum and breastfeeding women who are at nutritional risk—and recommending changes to the WIC food packages.

The restriction of white potatoes, as recommended by the IOM, is based on (1) food intake data indicating that consumption of starchy vegetables by the WIC-eligible population meets or exceeds the amounts suggested in the 2005 Dietary Guidelines for Americans for consumption of starchy vegetables; and (2) food intake data showing that white potatoes are the most widely consumed starchy vegetable.

Question. Please provide a description of the process and an estimate of the cost of compliance for the exclusion of a single fruit or vegetable from the program.

Answer. Generally, on an annual or biennial basis, WIC State agencies determine what foods to include on their State WIC food lists from the list of federally authorized WIC-eligible foods. In making their determination, State agencies consider factors such as product availability, participant acceptance, and costs.

There is no compliance costs for the exclusion of a single fruit or vegetable from the WIC Program because it is a part of normal business practice for State agencies to determine which foods will be eligible for the State WIC program.

NATIONAL ARBORETUM

Question. In reviewing the administration’s budget for the U.S. National Arboretum, we note a proposed cut of \$2 million from the Gardens Unit and the Education and Visitor Services Unit.

Please explain why these cuts have been proposed.

Answer. The reductions have been proposed to address higher research priorities of the administration, such as bioenergy, food safety, and obesity prevention.

Question. Did the specificity of these cuts, i.e., that they must come from Gardens and Education and Visitor Services at the National Arboretum, originate from an OMB mandate to the USDA, from the senior administration of the Department or from within the ARS itself?

Answer. ARS programs were reviewed for relevance, quality, impact, and cost effectiveness in the overall context of competing program priorities in the Department and the administration’s goal to balance the Federal budget by 2012.

Question. How do you intend to execute these cuts and maintain compliance with your legal obligation to provide education at the U.S. National Arboretum, a mandate which Congress spelled out in the legislation which established the National Arboretum?

Answer. ARS would continue to provide education at the U.S. National Arboretum at a reduced scope.

Question. If these cuts are implemented, what will be the impact on the USNA?

Answer. The Arboretum would emphasize research activities and reduce funding for its non-research activities. The Gardens Unit and Education and Visitor Services Unit would be merged. Resources to maintain the gardens and plant collections would be reduced and educational activities and use of the arboretum by outside organizations would be limited.

Question. Will there be any curtailment of days or hours of operation?

Answer. Yes, public access time would most likely be reduced.

Question. Will you be able to maintain all of the current Garden Displays and Plant Collections currently at the Arboretum?

Answer. The Arboretum would most likely have to reduce in size several of the existing collections and no longer actively maintain other collections.

Question. Will there be a reduction in the number of staff positions currently approved for the Arboretum and if so, how many and where?

Answer. Yes, there would be a reduction in staff. The Gardens Unit will be reduced from the current level of 26.6 FTE to 13.5 and the Education and Visitor Services Unit will be reduced from 11.7 to 3.7 FTE positions.

Question. Do you think the ARS is still the appropriate administrative home for the National Arboretum in light of the Department's desire to focus on research and the fact that the Arboretum has become an increasingly popular destination for the general public to visit?

Answer. USDA views the National Arboretum as a national asset and has taken pride in its public displays. ARS is committed to research supporting the floral and horticultural industries.

NATIONAL ORGANIC PROGRAM REORGANIZATION

Question. The recent announcement of a reorganization of the National Organic Program included information on who would head several branches of the program, although not the compliance and enforcement branch. When will you name the head of this program?

Answer. AMS is in the midst of staffing the compliance and enforcement branch and plans to have it staffed by the end of fiscal year 2008, including the announcement of the head of the branch.

COUNTRY OF ORIGIN LABELING

Question. What steps is USDA taking to ensure that mandatory country of origin labeling will be in effect as required by September 30, 2008?

Answer. USDA is working with all parties to expedite the development and publication of the necessary rulemaking. The rule must be published in the Federal Register by July 30 to meet the September 30, 2008, implementation date for mandatory country of origin labeling on all covered commodities. USDA is on-track to meet these deadlines.

Question. How has USDA spent funds allocated for enforcement of existing rules for mandatory country of origin labeling for seafood products? What audits or other enforcement actions have been done?

Answer. The \$1.1 million in appropriated funding allocated for the country of origin labeling program is used for all regulatory and oversight activities, rulemaking, outreach, education, monitoring and enforcement-related activities for fish and shellfish. Surveillance reviews of randomly-selected retail stores began in August 2006. During 2006, 1,159 retail surveillance reviews were performed in 19 States. During fiscal year 2007, AMS performed 1,657 retail surveillance reviews in 23 States. COOL retail surveillance activities have expanded to all 50 States for fiscal year 2008, increasing the number of retail reviews to 2,000. AMS has entered into reimbursable cooperative agreements with 42 States as of March 2008. USDA employees will perform retail surveillance in the remaining eight States.

AMS AUDITS

Question. FSIS non-compliance reports can be obtained through Freedom of Information requests, although AMS does not make public audit reports issued by AMS auditors of the same facilities that sell meat and poultry products to the National School Lunch Program. Why is this?

Answer. AMS audit reports of contractors and suppliers to Federal food and nutrition assistance programs are available under the Freedom of Information Act. However, proprietary information related to a firm's business and other sensitive information contained in the reports may be withheld, if deemed appropriate by the Agency.

Question. How often do AMS auditors visit food establishments that sell products to USDA feeding programs?

Answer. An AMS meat grader is present at the facility when ground beef is being processed for delivery under Federal contracts. Additionally, an AMS auditor performs an unscheduled audit of the grinding and slaughter processes once per month (or contract) while the facility is producing AMS purchased product. Additionally, AMS is cooperatively working with FSIS on cross-utilizing AMS employees to provide an enhanced surveillance program for the livestock holding and movement areas of slaughter establishments that provide raw materials.

RISK BASED INSPECTION

Question. At the February 5, 2008, meeting of the National Advisory Committee on Meat and Poultry Inspection, FSIS distributed a document entitled, "Timeline for Development and Implementation of the Proposed Public Health Risk-Based Inspection System, Public Health Information System and Poultry Slaughter Rule." Please provide a copy of the timeline and explain how it was developed.

Answer. The draft timeline was developed based on the agency's plan to strengthen its infrastructure and the continued enhancement and evolution of inspection. The timeline was and is still considered to be a draft, and is subject to substantial revisions as the agency receives input from all stakeholders. The draft is provided for the record.

[The information follows:]

TIMELINE FOR DEVELOPMENT AND IMPLEMENTATION OF THE PROPOSED PUBLIC HEALTH RISK-BASED INSPECTION SYSTEM, PUBLIC HEALTH INFORMATION SYSTEM AND POULTRY SLAUGHTER RULE

January 28, 2008.—Post the reports listed below on FSIS website for public comment:

—Public Health Risk-Based Inspection Technical Report for Processing and Slaughter.

—Public Health Risk-Based Inspection Technical Report for Poultry Slaughter.

January 28, 2008.—Submit Public Health Risk-Based Inspection (PHRBI) reports for peer review.

February 5–6, 2008.—NACMPI Full Committee meeting on Public Health Risk-Based Inspection.

February 29, 2008.—SAIC to deliver draft requirements document to FSIS for Public Health Information System (PHIS).

March 22, 2008.—Receive NACMPI, public and peer review comments on Public Health Risk-Based Inspection Reports.

March 2008.—Submit proposed rule on poultry slaughter for FSIS Assistant Administrator Review.

March 31, 2008.—FSIS approves SAIC requirements document for PHIS.

April 17, 2008.—Complete revision of PHRBI reports according to NACMPI, public and peer review comments.

April 18, 2008.—Send PHBRI report to OIG.

April 2008.—Submit proposed poultry slaughter rule to OGC for review.

April–Aug. 2008.—Draft directives, notices, and other needed documents, based upon approved PHIS requirements.

Spring 2008.—Submit proposed poultry slaughter rule to OMB.

Summer 2008.—Publish proposed poultry slaughter rule.

April–Sept. 2008.—Develop training schedule, detailed training plan, and logistics to deliver training to approximately 5,000 FSIS employees for the proposed PHRBI System and the PHIS.

October 2008.—Develop detailed plan to implement and initiate training for the proposed PHRBI System and the PHIS to FSIS field personnel.

January 2009.—Conduct User Acceptance Testing and begin field testing PHRBI system and PHIS.

October 2009.—Deploy PHRBI system and PHIS for use in field.

FSIS VACANCY RATES

Question. Please provide a tabular report of the in-plant inspection personnel vacancy rate broken down by job title and FSIS district for each of the past 6 months.

Answer. I will provide, for the record, a FSIS in-plant inspection personnel report that displays permanent full-time positions for each of the past 6 months (using data from the end of the pay-period closest to the end of the month).

[The information follows:]

DISTRICT PFT EMPLOYMENT AND OTP USAGE
[As of October 27, 2007]

DISTRICT	NON-INPLANT			INPLANT							FISCAL YEAR 2007 ALLOCS 4/ 11/07	DIFFER	FISCAL YEAR 2007 ALLOCS 4/ 11/07	OPT USAGE		
	DIST OFC	FLS	TOTAL	EGG	VMS	VMO	FI	CSI	EIAO	TOTAL						
ALAMEDA	13	14	27	6	.....	34	132	235	11	418	427	-9	9.00	0.2034	0.37	8.63
DENVER	11	12	23	7	1	45	120	246	17	436	437	-1	6.00	0.1582	0.29	5.71
MINNEAPOLIS	13	7	20	10	1	44	93	149	11	308	326	-18	6.00	0.2478	0.55	5.45
DES MOINES	11	11	22	29	1	63	299	198	11	601	615	-14	18.00	0.3485	0.69	17.31
LAWRENCE	12	8	20	5	1	52	258	201	10	527	520	7	16.00	0.4549	0.89	15.11
SPRINGDALE	14	10	24	2	1	71	320	297	10	701	713	-12	60.00	1.9458	3.68	56.32
DALLAS	113	9	22	2	1	54	257	193	9	516	515	1	35.00	0.9899	1.97	33.03
MADISON	12	7	19	7	1	31	65	127	8	239	240	-1	5.00	0.1392	0.32	4.68
CHICAGO	12	13	25	12	1	42	104	229	20	408	400	8	11.00	0.5672	0.91	10.09
PHILADELPHIA	14	12	26	8	1	39	78	242	15	383	400	-17	7.00	0.2790	0.49	6.51
ALBANY	13	11	24	4	1	15	5	194	12	231	250	-19	2.00	0.0728	0.12	1.88
BELTSVILLE	11	7	18	.....	1	42	201	163	9	416	432	-16	20.00	0.5906	1.12	18.88
RALEIGH	10	10	20	.....	1	66	393	229	11	700	670	30	52.00	1.9352	3.60	48.40
ATLANTA	12	14	26	3	1	69	399	393	15	779	765	14	33.00	1.1123	2.05	30.95
JACKSON	14	10	24	2	1	92	426	317	13	851	855	-4	80.00	2.8497	5.53	74.47
TOTAL	185	155	340	97	14	759	3150	3312	182	7514	7565	-51	360.00	11.8945	22.57	337.43

KEY:

FLS—Frontline Supervisor
 EGG—Egg Inspection
 VMS—Veterinary Medical Specialist (Humane Slaughter)
 VMO—Public Health Veterinary
 FI—Food Inspector
 EIAO—Enforcement Invest. & Analysis Officer
 CSI—Consumer Safety Inspector

DISTRICT PFT EMPLOYMENT AND OTP USAGE
[As of November 24, 2007]

DISTRICT	NON-INPLANT		INPLANT						FISCAL YEAR ALLOCS 4/ 11/07	DIFFER	FISCAL YEAR 2007 ALLOCS 4/ 11/07	OPT USAGE		
	DIST OPC	FLS	TOTAL	EGG	VMS	VMO	FI	CSI	EIAO	TOTAL		PP USAGE	YTD USAGE	AVAIL
ALAMEDA	13	14	27	8	.....	34	132	231	10	415	427	0.1835	0.81	8.19
DENVER	12	12	24	7	1	45	126	246	17	442	437	0.1129	0.55	5.45
MINNEAPOLIS	13	7	20	10	1	43	92	151	11	308	326	0.1961	1.02	4.98
DES MOINES	12	11	23	29	1	63	301	200	11	605	615	0.3691	1.36	16.64
LAWRENCE	12	8	20	5	1	52	258	203	10	529	520	0.5773	1.99	14.01
SPRINGDALE	14	10	24	2	1	71	320	296	10	700	713	2.0607	7.55	52.45
DALLAS	13	9	22	2	1	53	253	194	9	512	515	0.9025	3.87	31.13
MADISON	12	7	19	7	1	30	68	127	8	241	240	0.0805	0.50	4.50
CHICAGO	13	13	26	12	1	41	103	231	21	409	400	0.4083	1.82	9.18
PHILADELPHIA	14	12	26	8	1	39	78	242	15	383	400	0.2455	1.01	5.99
ALBANY	13	11	24	4	1	15	5	193	12	230	250	0.0536	0.25	1.75
BELTSVILLE	11	7	18	.....	1	41	200	163	9	414	432	0.5407	2.26	17.74
RALEIGH	10	9	19	.....	1	65	397	229	12	704	670	1.7605	7.03	44.97
ATLANTA	13	14	27	3	1	69	398	292	16	779	765	0.8834	3.91	29.09
JACKSON	14	10	24	2	1	95	431	317	13	859	855	2.4688	10.81	69.19
TOTAL	189	154	343	99	14	756	3162	3315	184	7530	7565	10.8434	44.73	315.27

KEY:

FLS—Frontline Supervisor
EGG—Egg Inspection
VMS—Veterinary Medical Specialist (Humane Slaughter)
VMO—Public Health Veterinary
FI—Food Inspector
EIAO—Enforcement Invest. & Analysis Officer
CSI—Consumer Safety Inspector

DISTRICT PFT EMPLOYMENT AND OTP USAGE
[As of January 5, 2008]

DISTRICT	NON-INPLANT		INPLANT						FISCAL YEAR 2007 ALLOCS 4/ 11/07	DIFFER	FISCAL YEAR 2007 ALLOCS 4/ 11/07	OPT USAGE		
	DIST OPC	FLS	TOTAL	EGG	VMS	VMO	FI	CSI	EIAO	TOTAL		PP USAGE	YTD USAGE	AVAIL
Headquarters	36	.....	36	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
ALAMEDA	13	14	27	8	1	33	131	235	10	418	427	0.2545	1.53	7.47
DENVER	12	12	24	7	1	43	128	243	17	439	437	0.1638	1.14	4.86
MINNEAPOLIS	13	7	20	9	1	43	83	162	10	308	326	0.1851	1.64	4.36
DES MOINES	10	11	21	29	1	60	301	199	11	601	615	0.2692	2.18	15.82
LAWRENCE	12	8	20	5	1	52	254	206	10	528	520	0.5024	3.52	12.48
SPRINGDALE	13	10	23	2	1	69	307	312	10	701	713	1.5733	13.52	46.48
DALLAS	13	9	22	2	1	55	250	196	9	513	515	0.9564	6.94	28.06
MADISON	12	7	19	7	1	30	63	132	8	241	240	0.1073	0.81	4.19
CHICAGO	13	13	26	12	1	43	97	238	21	412	400	0.3399	3.03	7.97
PHILADELPHIA	14	12	26	8	1	39	71	250	15	384	400	0.1529	1.70	5.30
ALBANY	12	11	23	4	1	16	5	196	12	234	250	0.0383	0.38	1.62
BELTSVILLE	11	7	18	.....	1	41	198	166	9	415	432	0.6036	4.17	15.83
RALEIGH	10	9	19	.....	1	63	400	228	12	704	670	1.4529	11.71	40.29
ATLANTA	14	14	28	3	1	67	390	300	16	777	765	0.7375	6.27	26.73
JACKSON	14	11	25	2	1	94	429	313	12	851	855	2.4978	19.40	60.60
TOTAL	222	155	377	98	15	748	3107	3376	182	7526	7565	9.8349	77.95	282.05

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 FI—Food Inspector
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 CSI—Consumer Safety Inspector

DISTRICT PFT EMPLOYMENT AND OTP USAGE
[As of February 2, 2008]

DISTRICT	NON-INPLANT			INPLANT							FISCAL YEAR ALLOCS 4/ 11/07	DIFFER	FISCAL YEAR 2007 ALLOCS 4/ 11/07	OPT USAGE		
	DIST OPC	FLS	TOTAL	EGG	VMS	VMO	FI	CSI	EIAO	TOTAL						
ALAMEDA	13	13	26	7	1	35	144	222	10	419	427	-8	9.00	0.2198	2.11	6.89
DENVER	12	10	22	7	1	43	127	240	16	434	437	-3	6.00	0.2027	1.51	4.49
MINNEAPOLIS	13	6	19	9	1	42	95	149	10	306	326	-20	6.00	0.1040	1.89	4.11
DES MOINES	11	11	22	28	1	62	301	199	11	602	615	-13	18.00	0.2107	2.58	15.42
LAWRENCE	11	8	19	5	1	52	256	203	10	527	520	7	16.00	0.4594	4.64	11.36
SPRINGDALE	11	10	21	2	1	69	358	260	10	700	713	-13	60.00	1.9725	17.89	42.11
DALLAS	12	9	21	2	1	56	256	193	9	517	515	2	35.00	0.9389	8.82	26.18
MADISON	12	7	19	7	1	31	66	128	8	241	240	1	5.00	0.0966	1.00	4.00
CHICAGO	13	13	26	12	1	41	107	227	21	409	400	9	11.00	0.2597	3.62	7.38
PHILADELPHIA	13	12	25	8	1	39	82	241	15	386	400	-14	7.00	0.1291	2.01	4.99
ALBANY	11	11	22	4	1	16	6	193	10	230	250	-20	2.00	0.0383	0.46	1.54
BELTSVILLE	11	7	18	.....	1	41	205	154	9	410	432	-22	20.00	0.6251	5.45	14.55
RALEIGH	10	9	19	.....	1	61	400	228	9	699	670	29	52.00	1.4623	14.48	37.52
ATLANTA	12	14	26	3	1	67	405	236	15	777	765	12	32.00	0.7252	7.75	25.25
JACKSON	13	9	22	2	1	94	473	263	11	844	855	-11	80.00	2.9460	25.41	54.59
TOTAL	178	149	327	96	15	749	3281	3186	174	7501	7555	-64	360.00	10.3903	99.63	260.37

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DISTRICT PFT EMPLOYMENT AND OTP USAGE
[As of March 1, 2008]

DISTRICT	NON-INPLANT		TOTAL	INPLANT							TOTAL	FISCAL YEAR ALLOCS 4/ 11/07	DIFFER	FISCAL YEAR 2007 ALLOCS 4/ 11/07	OPT USAGE			
	DIST OFC	FLS		Inplant Inspection											PP USAGE	YTD USAGE	AVAIL	
				WMO	FI-7	CSI-7	EGG	CSI 8-10	VMS	EIAO								
ALAMEDA	13	11	24	35	128	19	7	221	1	10	421	427	9.00	-6	9.00	0.1674	2.45	6.55
DENVER	12	9	21	44	127	.....	7	241	1	16	436	437	6.00	-1	6.00	0.2998	2.05	3.95
MINNEAPOLIS	13	7	20	43	87	10	9	148	1	8	306	326	6.00	-20	6.00	0.1287	2.17	3.83
DES MOINES	11	12	23	61	299	.....	30	198	1	11	600	615	18.00	-15	18.00	0.2955	3.10	14.90
LAWRENCE	11	8	19	53	256	.....	5	206	1	10	531	520	11	16.00	10.34	0.5001	5.66	10.34
SPRINGDALE	12	10	22	70	288	69	2	257	1	9	696	713	-17	60.00	21.93	2.0443	21.93	38.07
DALLAS	12	9	21	54	249	3	2	194	1	9	512	515	-3	35.00	1.0341	10.92	24.08	24.08
MADISON	12	8	20	32	59	9	7	130	1	7	245	240	5	5.00	0.0830	1.12	3.88	3.88
CHICAGO	13	13	26	41	96	10	12	230	1	20	410	400	10	11.00	0.3867	4.39	6.61	6.61
PHILADELPHIA	14	11	25	40	76	9	8	240	1	15	389	400	-11	7.00	0.1190	2.29	4.71	4.71
ALBANY	11	11	22	15	4	2	4	194	1	10	230	250	-20	2.00	0.0517	0.58	1.42	1.42
BELTSVILLE	10	7	17	40	196	7	.....	155	1	8	407	432	-25	20.00	0.7408	6.92	13.08	13.08
RALEIGH	11	10	21	61	400	2	.....	228	1	12	704	670	34	52.00	1.7305	17.89	34.11	34.11
ATLANTA	12	14	26	66	392	12	3	284	1	16	774	765	9	33.00	1.0065	9.66	23.34	23.34
JACKSON	13	9	22	94	428	53	2	268	1	11	857	855	2	80.00	3.1773	31.76	48.24	48.24
TOTAL	180	329	749	3085	205	98	3194	15	172	7518	7565	-47	360.00	11.7654	122.88	237.12	237.12

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DISTRICT PFT EMPLOYMENT AND OTP USAGE
(As of March 29, 2008)

DISTRICT	NON-INPLANT		TOTAL	INPLANT							TOTAL	FISCAL YEAR 2007 ALLOCS 4/ 11/07	DIFFER	OPT USAGE				
	DIST OFC	FLS		Inplant Inspection										PP USAGE	YTD USAGE	AVAIL		
				WMO	FI-7	CSI-7	EGG	CSI 8-10	VMS	EIAO								
ALAMEDA	13	11	24	33	128	19	7	228	1	11	427	427	9.00	9.00	0.1678	2.75	6.25
DENVER	13	9	22	44	125	7	241	1	15	433	437	6.00	-4	6.00	0.2657	2.58	3.42
MINNEAPOLIS	13	7	20	42	85	10	10	150	1	8	306	326	6.00	-20	6.00	0.1821	2.48	3.52
DES MOINES	12	12	24	60	304	30	198	1	11	604	615	18.00	-11	18.00	0.4101	3.94	14.06
LAWRENCE	11	8	19	52	251	5	204	1	10	523	520	16.00	3	16.00	0.5708	6.70	9.30
SPRINGDALE	12	10	22	71	288	70	2	257	1	9	698	713	60.00	-15	60.00	2.3359	26.20	33.80
DALLAS	12	9	21	55	248	3	2	195	1	9	513	515	-2	35.00	1.1638	13.19	21.81	
MADISON	12	7	19	32	59	10	7	130	1	8	247	240	7	5.00	0.1060	1.31	3.69	
CHICAGO	13	12	25	41	90	16	12	228	1	20	408	400	8	11.00	0.3551	5.23	5.77	
PHILADELPHIA	14	12	26	42	73	10	8	243	1	14	391	400	-9	7.00	0.0584	2.51	4.50	
ALBANY	11	11	22	14	4	2	4	194	1	10	229	250	-21	2.00	0.0496	0.68	1.32	
BELTSVILLE	11	7	18	39	182	18	.....	157	1	8	405	432	-27	20.00	0.7300	8.32	11.68
RALEIGH	10	9	19	61	384	13	.....	231	1	12	702	670	32	52.00	1.9361	21.49	30.51
ATLANTA	12	14	26	66	388	12	3	287	1	16	773	765	8	33.00	0.9165	11.39	21.61	
JACKSON	13	11	24	93	427	52	2	267	1	12	854	855	-1	80.00	3.0898	37.90	42.10	
TOTAL	182	149	331	745	3036	235	99	3210	15	173	7513	7565	-52	360.00	12.338	146.66	213.34	

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QUESTIONS SUBMITTED BY SENATOR DANIEL K. INOUE

COLONY COLLAPSE DISORDER

Question. How are Colony Collapse Disorder (CCD) and other pests and diseases such as Varroa mites affecting domestic honeybee beekeepers and the pollination capacity of U.S. agriculture?

Answer. CCD is a syndrome of honey bees that strikes colonies in fall, winter and early spring, when they are weakest. Forager bees leave the hive and do not return. However, CCD is only one of many problems beekeepers face in maintaining healthy hives. Surveys of bee colony losses over the past 2 years estimated that beekeepers in the U.S. lost 31 percent and 37 percent of their colonies in 2006 and 2007, respectively. This rate of colony loss is not sustainable for beekeepers, and while we are not in a pollination crisis, our ability to meet increasing pollination needs in almonds and other crops is surely threatened.

Question. If pollination capacity is seriously compromised, is our food security seriously threatened and would this constitute a national, if not global, crisis?

Answer. Bees are responsible for \$15 billion in added crop value and are as essential to plant reproduction and fruit production as soil and water are to plant growth. Due to invasive pests such as mites, honey bees were already under tremendous stress even before the appearance of CCD. The bee industry and growers cannot absorb yet another major cause of bee loss, particularly with demand for honey bees continuing to increase dramatically due to increased almond acreage, requiring half of the Nation's 2.4 million colonies. Colony rental costs have doubled for almond and blueberry producers. Other crops with heavy reliance on honey bees include alfalfa (for dairy and beef cattle), apples in the East and West, cranberries in the North, and citrus and vegetables throughout the South. If bee colony losses continue or increase, our ability to produce fruits, vegetables and nuts in the United States could indeed be threatened. Similar honey bee losses are occurring around the world and many of these losses are as yet unexplained.

Question. As hives are depleted, what is the Department doing to assist bee keepers with hive restorations? More specifically, what is the Department doing to ensure a long-term supply of queen bees that are free of major pests and diseases such as Varroa mites?

Answer. USDA's-Agricultural Research Service (ARS) is working on means to improve colony survival by testing means to recycle beekeeping equipment from dead hives including beeswax comb fumigation and irradiation to kill pathogens. To insure disease-free queens the Department is working with the queen breeding industry to find means of queen production that consistently produce quality queens that are long lived.

Question. Are there sources of queen bees free of Varroa mites that will play pivotal roles in the restoration of hives and ultimately pollination capacity in the United States? What steps need to be taken to assure preservation of these supplies of queen bees.

Answer. The Hawaiian Islands, particularly Kona on the Big Island (Hawaii), have represented one of only two locations in the world where queens could be produced without the impacts of parasitic varroa and tracheal mites, the other being Australia. Thus, the unique pest-free nature of the Big Island represents a valuable source of quality queens. This is now threatened by the arrival of the varroa mite on Oahu. APHIS is working with the Hawaiian Department of Agriculture to determine what eradication or management options are feasible for limiting the spread of varroa between these islands.

QUESTION SUBMITTED BY SENATOR DIANNE FEINSTEIN

HUMANE SLAUGHTER

Question. Secretary Schafer, over the last 4 months, I have written you three letters expressing my concerns about food safety related to the incidents exposed at the Hallmark/Westland slaughter facility in Chino, California and I also submitted questions for the February 28 subcommittee hearing. I have not received any satisfactory answers to my inquiries.

As you know, I have introduced bipartisan legislation that will establish penalties for those who slaughter or attempt to slaughter nonambulatory animals and will require the release of the names of establishments where recalled meats are sold or served.

Mr. Secretary, could you tell me why you have not used the authorities Congress gave you in the Farm Security and Rural Investment Act Sections 10414 and 10815

to punish violators who treat animals inhumanely and process nonambulatory animals outside of regulation for human consumption?

Answer. USDA has used its existing authority, when appropriate, to ensure animals are treated humanely. Since January 2004, non-ambulatory disabled cattle have been prohibited from the food supply. In July 2007, FSIS issued a final rule, "Prohibition of the Use of Specified Risk Materials for Human Food and Requirements for the Disposition of Non-Ambulatory Disabled Cattle," which confirmed this policy and stated that such cattle would not pass ante-mortem inspection. However, under this rule, if an animal passes ante-mortem inspection and subsequently becomes non-ambulatory before slaughter, the FSIS Public Health Veterinarian must immediately be notified and will determine, on a case-by-case basis, whether the animal was unable to walk due to an acute injury, such as a broken leg. In that case, the animal would be eligible to move on to slaughter operations as a "U.S. Suspect." Such animals are slaughtered separately and receive careful examination and inspection by the FSIS Public Health Veterinarian after slaughter. The Agricultural Marketing Service has longstanding specification requirements for foods purchased for Federal nutrition programs that preclude the use of meat and meat products derived from non-ambulatory disabled livestock.

PENALTIES FOR SLAUGHTER OF NONAMBULATORY ANIMALS

Question. Could you tell me why you have not finalized regulations that require the release of the names of establishments where recalled meats are sold or served?

Answer. The Department is in the process of finalizing the rule.

COMMODITY CROP PAYMENTS

Question. I agree with the position of the United States Department of Agriculture that the Federal Government should not give commodity crop payments to America's wealthiest people. In recent years, the largest recipient of Farm Bill Commodity Payments in California lived in San Francisco, demonstrating that the program does not currently help the small family farmer it was designed to assist. For this reason, I supported reform efforts during consideration of the Farm Bill that would have limited payments to individuals with high incomes.

Efforts to impose an income cap failed because members of the Senate believed that reform provisions included in the committee-passed bill would address this problem, but I am concerned that America's wealthiest people may still receive payments after these reforms are adopted.

Please provide the USDA's best estimate of how many individuals with adjusted gross incomes above \$250,000 per year will qualify for commodity payments under your farm bill proposal.

Answer. A September 2007 USDA study found that 25,191 farm operators and 12,906 share landlords had an adjusted gross income (AGI) greater than \$200,000 in 2004. In this analysis, no exemption was allowed for those with farm related income making up 75 percent or more of AGI as is done under current legislation. We have no analysis on a cutoff of \$250,000 but the USDA study results for \$200,000 should be quite similar.

Question. Please compare this to the number of individuals that would qualify under an extension of the current Farm Bill.

Answer. The current AGI cutoff, \$2.5 million with an exemption for those with 75 percent or more of their AGI stemming from farm-related income, likely only affects a few hundred producers each year.

Question. Please estimate how much money is saved by adopting the reform proposals in the Senate and House bills, respectively, as it pertains to the adjusted gross income thresholds.

Answer. USDA has no specific analysis of various AGI cutoffs proposed by the House and Senate. The September 2007 USDA study found that, in 2004, farmers and share landlords with an AGI of greater than \$200,000 earned close to \$400 million in farm payments. Not all of that \$400 million should be counted as potential savings as a portion of it was conservation payments which likely will not be subject to a tightened AGI limit.

Question. Please estimate how much money would be saved by reducing the adjusted gross income limits to \$500,000; \$400,000; \$300,000; and \$200,000 for farmers regardless of income source.

Answer. The USDA analysis did not include projected savings for limits other than \$200,000. Of course, as the limit is raised, fewer farmers would be affected. As only a small percentage of farmers are affected by the \$200,000 limit, the higher limits would be expected to have small impacts.

Question. Please also estimate how much money would be saved if Congress exempted farmers from these caps if a certain percentage of income is derived from on-farm income.

Answer. The USDA study found that exempting farmers with 75 percent or more of total income from farming and ranching would reduce savings from the AGI criteria by about 40 percent.

Question. As Secretary of Agriculture, can you think of any reason why government revenues—collected from the incomes of every American—should be spent on commodity payments to Americans whose incomes are in the top 1 percent of all Americans?

Answer. Current commodity program legislation does not contain income targeting other than the \$2.5 million AGI cutoff. USDA data indicate that most payments go to farm households that have large incomes compared with other farms and compared with the U.S. average household. Payment eligibility limits based on lower AGI levels would better help ensure equity among farmers.

Question. What percentage of America's farmers have an adjusted gross income exceeding \$200,000? Last year, what percent of total Farm Bill spending went to individuals with incomes exceeding \$200,000?

Answer. The USDA study found that 1.2 percent of sole proprietors and 2.0 percent of share landlords had AGIs greater than \$200,000 in 2004. Together, they earned about 5 percent of payments. That 5 percent includes conservation payments, which likely will not be subject to the AGI limit.

Question. Finally, do Americans in the top income bracket who receive commodity payments pay income taxes on their payments?

Answer. Commodity program payments are taxable income.

CONSERVATION FUNDING CUTS

Question. California relies on USDA's conservation programs to help farmers meet clean air and clean water regulations while still producing some of the crops including fresh fruits and vegetables that are not produced anywhere else in the United States. The President's 2009 budget proposes to cut discretionary funding for conservation; funding that will provide the needed technical resources for our farmers and ranchers to install conservation practices.

Do you believe funding cuts for Farm Bill programs should come from conservation? To preserve conservation funding, where do you think funding cuts should come from?

Answer. Increasing our commitment to conservation programs is important to the Department and the Farm Bill is a major vehicle for addressing the Nation's conservation needs. The President's budget request must be viewed in concert with the Administration's Farm Bill proposal which makes a significant investment in conservation. The proposal would add \$775 million to Farm Bill conservation programs in fiscal year 2009 and provides \$7.8 billion in new spending over 10 years in the conservation title.

In order to provide this level of investment in conservation, the administration will continue its efforts to reduce or eliminate redundant or lower priority programs and to eliminate Congressional earmarks. In addition, wherever possible, the administration's budget proposal combines and streamlines program design to improve the effectiveness and efficiency of program delivery making even more funding available for important conservation efforts.

COMMODITY SUPPLEMENTAL FOOD PROGRAM

Question. More than 530,000 California seniors, over the age of 65, receive Supplemental Security Income, making them ineligible for Food Stamps. The maximum Supplemental Security Income benefit is \$870 per month making it extremely difficult for these seniors to afford food. There is a significant need to expand the Commodity Supplemental Food Program to help more low-income seniors.

Why did the President's budget deem the Commodity Supplemental Food Program as a redundant program and eliminate it in the fiscal year 2009 proposal?

Answer. There is significant overlap between CSFP eligible populations and areas of operation and those of both the WIC Program and the Food Stamp Program. Unlike CSFP, both of these programs are available in communities throughout the United States.

In the administration's view, ensuring adequate funding for programs that have the scope and reach necessary to provide access to eligible people wherever they may reside is a better and more equitable use of scarce resources than to allocate them to programs that cannot provide access to many areas of the country. For this reason, the administration has placed a priority on funding food stamps, WIC, and

other nationally-available programs, such as the administration on Aging programs for seniors and TEFAP, which provide benefits to eligible people wherever they may live, including communities currently served by CSFP. All seniors over age 60 are eligible for both congregate and home-delivered nutrition assistance provided by one of 655 Area Agencies on Aging, which are funded through the Administration Aging in the Department of Health and Human Services. In addition to the Administration on Aging programs for seniors, low-income individuals of any age would have access to TEFAP.

QUESTIONS SUBMITTED BY SENATOR TIM JOHNSON

RESOURCE CONSERVATION AND DEVELOPMENT PROGRAM (RC&D)

Question. The RC&D program returns \$7.50 to local communities for every dollar the Federal Government invests. At a time when we are looking at ways to stimulate the economy, why did you cut this program?

Answer. The proposal eliminates Federal technical assistance to the 375 RC&D councils. The majority of RC&D Areas have received Federal support for at least 10 years. As nonprofit organizations, RC&D councils will still exist and most of these should have the capacity to identify, plan, and address their identified priorities. In addition, the Program Assessment Rating Tool (PART) analysis found the program to be duplicative of other similar resource conservation planning, rural economic development, community programs provided by other USDA agencies (such as the Forest Service and Rural Development), and other Federal departments (such as the Department of Commerce's Economic Development Administration).

Question. NRCS has established performance goals for RC&D in jobs and businesses created and retained. Has RC&D met those goals? Why cut funds for a program that helps create businesses in a time of economic downturn?

Answer. RC&D has met and exceeded the established performance goals for jobs and businesses created and retained each year. The proposal eliminates Federal technical assistance to the 375 RC&D councils. RC&D councils will still exist as nonprofit organizations. The majority of RC&D areas have received Federal technical assistance support for at least 10 years while obtaining financial support for projects from other sources. They can continue to obtain support from other sources to provide assistance to their communities.

Question. It is my understanding the NRCS contracted out for a survey to determine customer satisfaction with their programs and that RC&D received one of the highest scores. Why did you cut a program that the general public is satisfied with and delivered results? Please provide for the record the full results of the American Customer Satisfaction Index Survey and indicate the rank of RC&D compared to other NRCS programs.

Answer. The American Customer Satisfaction Index (ACSI) is the national indicator of customer evaluations of the quality of goods and services available to U.S. residents. It is the only uniform, cross-industry/government measure of Customer Satisfaction. The RC&D program received an ACSI score of 81 compared to the overall Federal Government score of 67.8 and the national sector score of 75.2. Although the program scored highly, the latest program performance review using the Program Assessment Rating Tool (PART) analysis found the program to be duplicative of other similar resource conservation planning, rural economic development, and community programs provided by other USDA agencies (such as the Forest Service and Rural Development) and other Federal departments (such as the Department of Commerce's Economic Development Administration). It is for this reason that elimination of funding has been proposed. The full results of the American customer Satisfaction Index Survey for NRCS programs are as follows:

Program	Year Conducted	Score	Federal Government ACSI	National Sector ACSI
Conservation Technical Assistance (CTA)	2001	81	71.3	72.0
Environmental Quality Incentive Program (EQIP)	2004	75	72.1	74.3
Wildlife Habitat Incentive Program (WHIP)	2004	77	72.1	74.3
Conservation Security Program (CSP)	2005	76	71.3	73.2
Snow Survey and Water Supply Forecasting	2005	77	71.3	73.2
Conservation Technical Assistance (CTA)	2007	79	67.8	75.2
National Resources Inventory (NRI)	2007	57	67.8	75.2
Plant Materials Center (PMC)	2007	83	67.8	75.2
Resource Conservation & Development (RC&D)	2007	81	67.8	75.2
Soil Survey Program	2007	79	67.8	75.2

Program	Year Conducted	Score	Federal Govern- ment ACSI	National Sector ACSI
Technical Service Providers (TSP)	2007	78	67.8	75.2
Wetlands Reserve Program (WRP)	2007	69	67.8	75.2

Question. An earmark in the fiscal year 2008 Senate Committee Report for a project in Hawaii was moved by NRCS from the conservation operations budget to the RC&D program. The Senate committee has included this earmark for the project in Hawaii in the conservation operations budget for over 5 years. Why did you move this earmark? The net result is that each council nationally lost \$1,800 in funding. Did you seek permission from the committee to move this earmark?

Answer. The earmark for Hawaii was funded from the RC&D budget rather than the Conservation Operations (CO) Program in 2008 because the project scope and intent was more properly aligned with RC&D program objectives and authorities than it was with those of the CO Program. Conservation operations policy was revised recently to state that if an earmark can be appropriately funded through a program other than Conservation Technical Assistance (CTA), then funding from that program source should be used. With this shift in funds, the essence of the earmark (purpose, intent, objectives) did not change.

Question. RC&D Councils are made of volunteers and the program was not designed to move councils to self sufficiency. RC&D Councils are dedicated to putting resources on the ground in communities to address unmet needs. Councils have prided themselves on using grants to serve communities—not for their own administrative costs. What sources of funding do you see for Councils to become self-sufficient?

Answer. Funding needed for RC&D Councils to become self-sufficient would need to come from sources such as State and local governments, private foundations, and other Federal agencies. Councils can request assistance from State governments for funds that are not tied specifically to a project, but are used to assist the Council in covering other costs. A number of States have provided assistance to Councils in the past, such as Alabama, Arkansas, and Georgia.

Question. The fiscal year 2008 appropriation includes a cap on headquarters funding. Are greenbook charges included in the headquarters cap? Please provide an allocation chart that includes all costs—headquarters, State by State, and any other costs assessed to the RC&D program. Please include fiscal year 2007 allocations in the chart for comparison purposes.

Answer. Yes, the agency greenbook charges are included in the amount applied to the headquarters funding cap. In the table below, the greenbook allocations are considered in addition to the National Headquarters allocations and include agency-wide assessments (assessments applied at the headquarters level) and state specific assessment charges. The fiscal year 2007 and 2008 allocations include carryover funds which are considered to be outside of the cap.

The information is provided for the record.

State	2007 Final Allo- cations	2008 Initial Allo- cations
Alabama	\$1,112,363	\$1,070,781
Alaska	940,158	962,592
Arizona	781,445	783,509
Arkansas	901,283	902,792
California	1,476,699	1,432,353
Colorado	942,084	951,806
Connecticut	291,801	296,117
Delaware	143,105	145,222
Florida	1,018,812	990,310
Georgia	1,307,235	1,313,377
Hawaii	595,518	1,259,387
Idaho	1,064,020	1,051,130
Illinois	1,182,516	1,194,401
Indiana	1,039,433	1,070,782
Iowa	1,875,868	1,903,612
Kansas	1,056,396	1,072,020
Kentucky	1,656,085	1,665,661
Louisiana	1,021,730	919,739
Maine	649,112	656,956
Maryland	425,494	435,666
Massachusetts	422,574	435,666

State	2007 Final Allocations	2008 Initial Allocations
Michigan	903,077	919,739
Minnesota	1,042,830	1,051,130
Mississippi	1,000,977	997,706
Montana	972,773	987,160
Missouri	1,035,580	1,051,130
Nebraska	1,406,903	1,427,709
Nevada	426,099	435,666
New Hampshire	306,050	290,444
New Jersey	286,211	290,444
New Mexico	960,090	957,413
New York	997,135	1,000,681
North Carolina	1,107,877	1,189,758
North Dakota	962,746	976,343
Ohio	1,085,578	1,070,782
Oklahoma	1,098,987	1,085,964
Oregon	715,527	726,110
Pennsylvania	1,184,056	1,070,782
Rhode Island	148,005	145,222
South Carolina	918,864	919,739
South Dakota	906,334	919,739
Tennessee	1,172,418	1,189,758
Texas	2,608,788	2,617,467
Utah	1,003,322	944,456
Vermont	285,772	290,444
Virginia	902,960	919,739
Washington	959,292	1,016,554
West Virginia	718,607	729,235
Wisconsin	906,334	919,739
Wyoming	717,668	726,110
Pacific Basin	237,569	303,582
Caribbean Basin	429,316	435,666
National Headquarters	2,910,065	2,572,253
Centers	615,516	479,402
Greenbook	2,047,191	813,932
Undistributed .....	.....	280,621
Total	52,884,248	52,266,498

Question. Please provide for the record the number of new RC&D coordinators who have been hired in the last 2 years. Please provide for the record the number of training sessions held for new RC&D coordinators (RC&D concepts course and area planning course) and the number of new coordinators trained in the last fiscal year and scheduled for fiscal year 2008.

Answer. Forty-nine new RC&D coordinators have been hired in the last 2 years. One RC&D concepts course and one area planning course was held by the NRCS National Educational Development Center (NEDC) in fiscal year 2006. In fiscal year 2007, training was provided by the national NRCS office through internet "net meetings." Three internet-based area planning courses and three internet-based concept courses were held. In fiscal year 2008 the NEDC plans to hold one concepts course and one area planning course. Twenty-seven of the 49 new coordinators have taken the concepts course, with 23 trained in fiscal year 2007 through the net meetings. Twenty-one of the 49 new coordinators have taken the area planning course with 19 trained in fiscal year 2007 through the net meetings. We do not have information regarding training requests for fiscal year 2008 broken down by position.

Question. How many RC&D coordinators are eligible to retire in fiscal year 2008 and fiscal year 2009? How much does it cost to fill a coordinator vacancy on average?

Answer. Sixty-eight RC&D coordinators are eligible to retire in fiscal year 2008 and an additional 23 will be eligible to retire in fiscal year 2009. On average, it costs approximately \$80,000 in relocation costs to fill a coordinator position. This does not include the cost of salary, benefits, vehicle, etc.

Question. What is the average cost to provide a full time coordinator to an RC&D area? What is the current level of funding provided to an average RC&D area in fiscal year 2008?

Answer. The average cost to provide a full time coordinator is approximately \$124,500 and this is the average level of funding provided.

Question. Coordinators no longer serve a council full-time. On average how much of a coordinators time is spent on RC&D? What other programs are coordinators working on?

Answer. Although we do not have a national figure for the amount of time a coordinator spends on RC&D Program activities at this time, we are in the process of obtaining the information for the record. Qualitative information from discussions with our State offices shows that most Coordinators spend the vast majority of their time on RC&D activities. Time spent implementing Farm Bill programs is charged as Technical Assistance (TA) to the appropriate Farm Bill program. Program and fund integrity is maintained by the agency for the RC&D program and all other programs. The other programs coordinators are working on include Conservation Technical Assistance, Watersheds and Flood Prevention Operations, Watershed Surveys and Planning, and other Farm Bill programs such as the Environmental Quality Incentives Program and the Conservation Security Program.

Question. Please provide for the record the program improvements that have been made to address the OMB PART score concerns.

Answer. Since 2004, significant improvements have been made and in 2006 the program received an increased score performing at an "Adequate" level. Program improvements include: developed and implemented annual, long-term, and efficiency measures; developed and implemented a more targeted allocation methodology designed to address priority program needs; revised the RC&D policy manual to reflect increased emphasis on program performance and linkages to national performance goals; and developed and implemented a new reporting system to track program performance.

In addition, the Agency is taking the following actions to improve the performance of the program: developing and implementing a 5-year comprehensive budget and performance management strategy aligned with NRCS's strategic plan; continuing to streamline the program by updating the allocation methodology, identifying ways to increase local leadership capabilities, and eliminating costs such as those for clerical and office support that can be incurred by councils.

Question. The budget indicates that RC&D duplicates other Federal programs but through its area planning it reviews resources in a community and assesses and addresses unmet needs. In the most rural areas of this country there are often no organizations to act as a fiscal agent and deliver Federal programs without the assistance of an RC&D council. How do you propose to assist these communities in the absence of RC&D?

Answer. RC&D councils are established nonprofit organizations and will continue to play a role in assisting their communities. These councils have developed strategic area plans that identify, plan, and address their agreed priorities. They have experience in obtaining financial support for projects and acting as fiscal agents in their communities. Although the technical assistance provided by NRCS will be eliminated, the councils can continue to act as a fiscal agent in their communities.

Question. The House report included report language that the Committee requests that NRCS work with the Councils to develop appropriate measures of effectiveness for both conservation and economic development. Can you give us an update on how you worked with councils to achieve this? We continue to hear that conservation is the priority—what have you done to be sure that economic development activities can also be provided?

Answer. The RC&D Program's short and long-term program performance and efficiency measures reflect both conservation and community development aspects of the program. These measures were developed in conjunction with the National Association of Resource Conservation and Development Councils (NARC&DC), representing the 375 councils nationwide, to incorporate local council concerns identified through the Area Planning process.

Conservation is a priority for NRCS, but does not exclude Councils' ability to continue to work on community and economic development projects. We have annual and long-term performance measures to capture the community development activities of councils. The annual performance measure is: local businesses created or retained in rural communities. A number of businesses within the agricultural and non-agricultural sectors are eligible. Example businesses include, but are not limited to, manufacturing, service, value-added agriculture, tourism, home-based, and energy related industries. Performance is reported in numbers. This measure is calculated as the sum of new businesses created or businesses retained in the current fiscal year. The long-term performance measure is: Natural resource-based enterprises created or retained that increase employment opportunities, the cumulative

number of jobs created and/or retained with RC&D assistance in natural resource-based industries for fiscal year 2005–2010.

NRCS works closely with local RC&D councils to help them develop and implement projects that support their Area and Annual plans with programs and services from NRCS, other USDA agencies and other private and public entities. By partnering with other entities, NRCS was able to help RC&D councils create or retain 10,723 jobs and 3,185 businesses in 2007.

COUNTRY OF ORIGIN LABELING

Question. With respect to Country of Origin Labeling (COOL), the President addressed COOL as follows in his proposed fiscal year 2009 budget:

Country of Origin Labeling (COOL) becomes mandatory for all covered commodities on September 30, 2008. Currently, AMS operates a small COOL enforcement program for fish and shellfish compliance (the only commodities for which labeling is now required). As part of the 2009 budget, the agency will propose to charge a mandatory fee for the full implementation of a complete COOL enforcement program for the following commodities, in addition to the current fish and shellfish items: muscle cuts of beef (including veal), lamb, and pork; ground beef, ground lamb and ground pork; perishable agricultural commodities; peanuts and the current fish and shellfish items. Additional commodities may also be considered. The additional funds will be deposited into the agency's existing Trust account.

If the USDA has not yet charged a user fee for the implementation of COOL for fish and shellfish, why is the administration now proposing to charge a blanket user fee for all commodities for this program?

Answer. The expansion of mandatory labeling requirements to all covered commodities will greatly increase the cost of operating the program. USDA believes it appropriate for the regulated entities to pay the cost for enforcement-related activities to ensure that covered commodities are labeled in conformity with regulations. Approximately 37,000 retailer locations would be assessed a fee of about \$260 annually per location to finance COOL enforcement costs of \$9.6 million. The proposed fees would be used to: finance surveillance reviews on all covered commodities at retail establishments on a random basis approximately every 7 years, plus a limited number of supplier trace-back audits; provide training for Federal and State employees on enforcement responsibilities; and develop and maintain an automated web-based data entry and tracking system for records management and violation follow-up. Appropriated funding at the current level would be used for regulatory and oversight activities including rulemaking, outreach and education for suppliers, retailers, and consumers.

Question. What is USDA's most recent estimate for mandatory COOL's implementation cost, for each commodity and for the enforcement of all commodities, on a fiscal year basis, and what factors and expenses did you take into account to arrive at this conclusion?

Answer. USDA's fiscal year 2009 budget request identifies ongoing appropriated funding at \$1.1 million and a legislative proposal for new user fee funding at \$9.6 million annually for a total of \$10.7 million to implement and enforce mandatory COOL for all covered commodities. The user fee cost estimate was based on an expansion of current retailer review activities to incorporate all covered commodities at 5,000 retailers each year at a cost of \$900 per location, performed primarily by cooperating State agencies. It also includes more detailed supplier trace-back audits of 300 items each year at 100 locations that require 40 hours per location, at a cost of \$1.3 million; Federal personnel to administer these enforcement activities whose salary and support costs total \$2 million; and a tracking system with an annual cost of \$1.8 million to handle compliance documentation on the approximately 37,000 retail locations.

Question. How much money has USDA spent on implementing the mandatory COOL program for fish and shellfish to date, for each fiscal year since the program was enacted?

Answer. Mandatory country of origin labeling for fish and shellfish became effective in fiscal year 2005. The COOL program was first funded in fiscal year 2006 at \$1.05 million, funding continued at \$1.05 million in fiscal year 2007, and \$1.07 million in fiscal year 2008.

Question. Has USDA requested any money from Congress for COOL program implementation in fiscal year 2009, as it has in the past?

Answer. Congress appropriated \$1.05 million for COOL program implementation in fiscal year 2006 and delayed expansion of mandatory COOL requirements until September 30, 2008. Since fiscal year 2006, the funding for COOL program activi-

ties has stayed substantially the same. The fiscal year 2009 budget includes \$1.1 million in appropriated funding.

For fiscal year 2009, the Budget proposes that the appropriated funding be used to conduct non-enforcement related COOL activities for all covered commodities. The budget proposal also identifies an additional \$9.6 million needed on an annual basis for enforcement-related activities on all covered commodities. This amount is to be provided through the proposed user fee.

COMMODITY SUPPLEMENTAL FOOD PROGRAM

Question. CSFP eligibility is based only on income, while the food stamp program applies resource tests for household eligibility. These eligibility differences will likely prevent many CSFP recipients from participating in the food stamp program. What is your plan for participants who will no longer be eligible for benefits under food stamp guidelines?

Answer. Elderly participants who are leaving the CSFP upon the termination of its funding and who are not already receiving food stamp benefits will be eligible to receive a transitional benefit worth \$20 per month ending in the first month following enrollment in the Food Stamp Program under normal program rules, or 6 months, whichever occurs first. The Department believes the number of CSFP participants who are ineligible for food stamps is relatively small. These individuals will be treated no differently than anyone else living in similar circumstances, who are currently unable to participate in the CSFP due to its limited availability.

Former CSFP participants will have access to TEFAP and other government and private non-profit programs that offer community-based food assistance opportunities. Eligible women, infants, and children will be referred to the WIC Program. Finally, all seniors over age 60 are eligible for both congregate and home-delivered nutrition assistance provided by one of 655 Area Agencies on Aging, which are funded through the Administration on Aging in the U.S. Department of Health and Human Services.

Question. Isn't it true that the food stamp program and CSFP are supplemental programs that are meant to work with each other to ease the burden upon our low income seniors?

Answer. The Food Stamp Program is the cornerstone of the national nutrition safety net, and is the largest nutrition assistance program serving the elderly. The Food Stamp Program serves nearly 2 million seniors in an average month. Because CSFP operates in limited areas, some low-income seniors have access to nutrition assistance through commodities as well as food stamps, while almost all other low-income seniors throughout the Nation must rely exclusively on food stamps for such help.

In the administration's view, ensuring adequate funding for programs that have the scope and reach necessary to provide access to eligible people wherever they may reside is a better and more equitable use of scarce resources than to allocate them to programs that cannot provide access to many areas of the country. For this reason, the administration has placed a priority on funding food stamps, WIC, and other nationally-available programs that provide benefits to eligible people wherever they may live, including communities currently served by CSFP. Many elderly CSFP participants are expected to be eligible for, and to make use of the Food Stamp Program, from which they may receive benefits that can be more flexibly used to avoid conflicts with their individual medical issues and other needs.

Question. What will you do for the 25 percent of the CSFP participants who are already enrolled in the food stamp program and would be losing a critical benefit?

Answer. CSFP recipients who are already enrolled in the FSP will continue to receive monthly food assistance benefits and have access to nutrition education services. They will also have access to The Emergency Food Assistance Program and other government and private non-profit programs that offer community-based food assistance opportunities, including congregate and home-delivered nutrition assistance provided by Area Agencies on Aging, which are funded through the Administration on Aging in the U.S. Department of Health and Human Services.

The decision to eliminate CSFP reflects the administration's choice to make the best use of the resources available to serve all eligible people in need of nutrition assistance nationwide, wherever they live. Ensuring adequate funding for programs that have the scope and reach necessary to provide access to eligible people wherever they may reside is a better and more equitable use of these resources than to allocate them to programs that cannot provide access in many areas of the country. For this reason, the administration has placed a priority on funding food stamps, WIC, and other nationally-available programs.

Question. In years past, CSFP has received bartered commodities from USDA. During the second round of bartered commodity purchases, none of the bonus commodities are being directed to CSFP. The National CSFP Association has asked you why this has occurred and it received the response that CSFP will not receive bartered commodities because the administration has proposed elimination of the program. However, in the first round of bartered commodity purchases, \$10 million worth of bonus commodities were provided to CSFP and it had been eliminated in the administration's fiscal year 2008 budget then, too. Why is there a discrepancy between this round of bartered commodity purchases and the last round given that the administration's intention to eliminate the program has not changed?

Answer. Under the first round of bartered commodity purchases, the Department provided modest amounts of bartered foods to CSFP, a program available in only limited areas. This modest support helped maintain program participation that was at risk due to funding difficulties. Our intention remains to distribute the majority of bartered commodities to TEFAP, a program which is available nationally.

QUESTIONS SUBMITTED BY SENATOR ROBERT F. BENNETT

RICE STOCK REPORTING

Question. It is my understanding that the National Agricultural Statistics Service has been asked by the rice industry to require additional rice stock reporting dates on June 1 and September 1. Further, I understand that NASS has agreed to implement the June date for 2008.

Will the implementation of these dates require additional staff?

Answer. No. The implementation of each additional quarterly Rice Stocks report requires a total of 0.20 FTE positions. This includes preparation activities, editing, analysis, estimation, and publication. These 0.20 FTEs are current NASS employees and are spread across various Federal staff in the rice estimating States and headquarters.

Question. If not, what are the marginal costs associated with adding one or more date? Please provide a detailed breakdown.

Answer. The marginal out-of-pocket costs associated with implementing each date are estimated at \$26,000 in data collection costs; and \$4,000 in miscellaneous costs such as postage and supplies. The cost of the 0.20 FTE positions, already in place, is estimated at \$20,000 for Federal salaries and benefits.

PUBLIC LAW 480 TITLE II SUPPLEMENTAL REQUESTS

Question. Secretary Schafer, the pending supplemental request from the President contains a request for \$350 million in additional funding for Public Law 480 Title II grants. This marks the third consecutive fiscal year the administration has requested exactly \$350 million for "emergency" need in this critical international food aid program. Since this is part of an emergency supplemental request, I would assume it is based on unanticipated emergency needs in the program. Yet I find the consistency in this amount over the past several years somewhat interesting.

Is this request in fact based on unanticipated needs? Is it just coincidence that this amount has not changed?

Answer. Although the supplemental request has remained at the same level, the location and nature of the needs have varied by year. The relative areas of focus, for example, have shifted among Darfur, Southern Africa, the Horn of Africa, and Afghanistan. We anticipate changing needs in fiscal year 2009 as well. The President is expected to submit a budget amendment to Congress requesting an additional \$395 million for Public Law 480 Title II to provide additional emergency food aid to Africa and other regions as well as to address higher projected commodity and transportation costs.

Question. If not, why is this amount not included in the annual budget submission?

Answer. It is extremely difficult to predict the extent of emergency needs in advance, particularly when development of the annual budget submissions begins over a year before the start of the fiscal year. The supplemental requests have been based on emergency needs that were previously unanticipated and are formulated once post-harvest assessments are complete.

COMMODITY PRICES

Question. Soaring commodity prices and increased volatility in both the cash and futures markets have had drastic ripple effects across all areas of agriculture. One glaring instance of these changes is the havoc that has been wreaked on the Depart-

ment's feeding programs, both domestic and international. It would seem that the rising prices have not only the effect of making it more expensive to feed a person, but also drive the participation rates up by adding people who are no longer capable of self-sufficiency due to higher food costs.

How is the Department dealing with the unpredictability of the costs and subsequent unpredictability of participation rates in these programs?

Answer. The Department has tools and policies in place to respond to changes in projected demand and costs in both the domestic and international food assistance programs. The major domestic programs are designed to respond automatically to annual increases in participation when economic or other circumstances change. The programs' structure helps to ensure that benefits automatically flow into communities, States, or regions of the country in which increased numbers of eligible people apply for benefits.

In the case of the international programs, we have the Bill Emerson Humanitarian Trust (BEHT) which allows the United States to respond to unanticipated emergency food aid needs overseas. The administration recently announced two releases from the BEHT. Last October, the President also requested supplemental appropriations of \$350 million for the Public Law 480 Title II program for 2008.

Finally, it is important to note that the Stocks-for-Food initiative that was announced in July 2007 is helping to provide additional commodities for programming under both the domestic and international food aid programs.

Question. Dr. Glauber, what do you see as the main influencing factors in what we are seeing in these markets?

Answer. Many factors are contributing to increased commodity prices. Global economic growth is boosting global demand for food. Real foreign economic growth in 2007 was a strong 4.0 percent and is expected to decline slightly to 3.9 percent in 2008 but remain well above trend, as has been the case beginning in 2004. Asia, excluding Japan, will likely grow at over 7 percent in 2008, above trend for the fifth consecutive year. Higher incomes are increasing the demand for processed foods and meat in rapidly growing developing countries, such as India and China. These shifts in diets are leading to major shifts in international trade.

Crop and livestock production depend on the weather. The multi-year drought in Australia reduced wheat and milk production and that country's exportable supplies of those commodities. Drought and dry weather have also adversely affected grain production in Canada, Ukraine, the European Union, and the United States.

Many exporting countries have put in place export restrictions in an effort to reduce domestic food price inflation. Exporting countries as diverse as Argentina, China, India, Russia, Ukraine, Kazakhstan, and Vietnam have placed additional taxes or restrictions on exports of grains, rice, oilseeds, and other products. This has further constrained food supplies.

Higher food marketing, transportation, processing costs are also contributing to the increase in retail food prices. Record prices for diesel fuel, gasoline, natural gas, and other forms of energy affect costs throughout the food production and marketing chain. Higher energy prices increase producers' expenditures for fertilizer, chemicals, fuel, and oil driving up farm production costs. Higher energy prices also increase food processing, marketing, and retailing costs. These higher costs, especially if maintained over a long period, tend to be passed on to consumers in the form of higher retail prices.

In recent years, the conversion of corn and soybean oil into biofuels has been a factor shaping major crop markets. The amount of corn converted into ethanol and soybean oil converted into biodiesel nearly doubled from 2005/2006 to 2007/2008. The growth in biofuels production has coincided with rising prices for corn, soybeans, soybean meal, and soybean oil. From 2005/2006 to 2007/2008, the farm price of corn has more than doubled and the price of soybeans nearly doubled.

Question. How much of this can be attributed to the massive amounts of our crops now being diverted from the food supply to be used for biofuels production?

Answer. Many factors in addition to biofuels production have contributed to lift current commodity prices above long-term averages. These factors include: record high petroleum prices; weather-related production losses; rapidly rising incomes in large population countries such as China and India; and, unprecedented speculative demand for all types of commodities.

With respect to the effects of biofuels on prices, the exact level of impact is based upon numerous factors. For example, the United States uses about 10 percent of the world's corn production and 1 percent of the world's vegetable oil production for biofuels. The 10 percent of global corn used for biofuels represents only 4 percent of grain (coarse grains, rice, and wheat) production. Based upon current projections, only 1.2 percent of world harvested grain area will be required to meet U.S. ethanol corn demand this year. In addition, for every bushel of corn used to produce ethanol,

17 pounds of distillers dried grains (DDGs) is produced. DDGs can be substituted for corn in many livestock rations and when this offset is taken into account, corn and its equivalent feed value lost through ethanol production represents about 17 percent of current year corn production even though a projected 24 percent of the U.S. corn crop will be used by ethanol producers in 2007/08.

WIC FOOD COSTS

Question. For this subcommittee, the increase has been felt primarily in the WIC program, which makes up one-third of our discretionary budget. The average monthly food cost for the WIC program increased 7.05 percent in fiscal year 2008, which is almost a full percentage point higher than the increase estimated in the President's fiscal year 2008 budget.

Is this trend likely to continue or have we reached a plateau?

Answer. The Department is projecting continued, but considerably slower inflation in average WIC food package costs for fiscal year 2009. The Department's latest Monthly Report to Congress on the WIC Program contains our most current estimate of WIC food package cost inflation for fiscal year 2008.

Question. Is the estimate in the fiscal year 2009 budget for WIC food costs likely to increase? The President's budget only projects an increase of 2.3 percent in fiscal year 2009.

Answer. The Department's projected increase in WIC food package costs of 2.3 percent in fiscal year 2009 is based on a 2.08 percent projected increase in the Thrifty Food Plan (TFP) index plus an adjustment for anticipated changes in some States' infant formula rebate contracts. TFP forecasts are updated semiannually.

USDA plans to revise its fiscal year 2009 WIC food package cost projection when the TFP is next re-estimated as part of the upcoming Mid-Session Review of the President's budget.

FOOD STAMP PARTICIPATION

Question. Food Stamp participation has reached a record high. The growth in the program is astounding. For example, recent news reports indicate that 1 in 10 New York residents, 1 in 8 Michigan residents, and 1 in 6 West Virginia residents are now on food stamps. In addition, many States, including Maryland and Florida, have seen a 10 percent increase in participation in the last year alone. This is particularly troubling because one must be near poverty levels to qualify for food stamps. Specifically, an individual or household's net income cannot be more than the level of poverty to qualify.

What do you attribute increases in food stamp participation to?

Answer. The Food Stamp Program is designed to expand and contract as the economy changes. The Department forecasts an increase in participation for both fiscal year 2008 and fiscal year 2009, consistent with the projected increase in the unemployment rate provided by OMB for use in the development of the fiscal year 2009 budget.

The number of Americans receiving food stamps has increased by over 60 percent since 2000 for a number of reasons.

First, legislative changes made it easier to qualify for food stamps and simplified rules improved program access. The major provisions that contribute to increases in participation include State options for simplified reporting that make it easier for low-income families to participate, restoration of eligibility for many legal immigrants, and replacement of outdated limits on the value of vehicles that participants can own.

Second, the percent of eligible low-income people who participate in the Food Stamp Program has increased in recent years. In 2001, only 54 percent of those eligible for benefits participated. However, by 2005, that proportion had increased to 65 percent. Over the last several years, USDA has engaged in multiple activities including an ongoing outreach campaign to ensure that needy persons are aware of the nutrition assistance available to them. Enrolling more eligible people can further the Nation's goals for improving the nutrition and health of low-income Americans and has been a priority of the Department for several years.

COLOMBIA FREE TRADE AGREEMENT (FTA)

Question. What are the potential negative effects on American agriculture we should expect if the Colombia FTA is not passed by the Congress?

Answer. The effects are many. First, without an agreement, the terms of bilateral trade will continue to grow in favor of Colombia, contributing to a lopsided agriculture trade imbalance. In 2007, Colombia had a positive agricultural trade balance with the United States of \$300 million. One reason for this is that nearly all of Co-

Colombia's agricultural products enter the United States duty free, under a unilateral trade preference agreement, the Andean Trade Preference and Drug Eradication Act.

However, currently, no U.S. agricultural exports enjoy duty-free access to the Colombian market. With the agreement in place, more than 70 percent of U.S. agricultural product tariff lines—52 percent of the value of U.S. agricultural trade to Colombia—will immediately enter at zero duty. Most all other tariffs on U.S. agricultural products will be reduced to zero within 15 years and all within 19 years.

Second, without the agreement third-country competitors will gain market share at the expense of the United States. Colombia is currently negotiating a free trade agreement with Canada. Besides gaining immediate market share in our largest market in South America, allowing Canada to implement its FTA first will put U.S. exporters at a disadvantage, costing them millions of dollars.

Colombia implements a variable levy known as the price band. Under the U.S.-Colombia Trade Promotion Agreement (CTPA) the price band system, which affects over 150 products including corn, rice, wheat, oilseeds and products, dairy, pork, poultry, and sugar, will be immediately eliminated. Tariffs under the current price band system vary with world prices and can reach as high as the World Trade Organization tariff bindings which range from 15 to 388 percent. Canada will be protected from international price fluctuations due to their agreement to eliminate the variable duty price band system. As long as the United States does not implement the CTPA, U.S. exporters will be subject to variable import duties that could change every 2 weeks. In addition, Canada will have access to markets for new-to-market products in Colombia, such as high quality beef, poultry parts, and select dairy products.

Finally, but no less important, approval of the Colombian agreement would acknowledge and support the transformation of the people and the democratic government of Colombia. The agreement builds on Colombia's revival by enhancing long-term investments in the country. The Colombian people have demonstrated their commitment to deepening a U.S.-Colombian economic and political relationship when the Colombian legislature approved the CTPA last year.

AFRICAN STEM RUST RESEARCH

Question. In the November/December 2007 issue of Agricultural Research, a science magazine published by USDA, there was an article entitled: "World Wheat Supply Threatened!" The article was about USDA's efforts to combat African Stem Rust or Ug99, a highly virulent and aggressive stem rust, which has rapidly spread through Africa and into the Middle East, threatening world barley and wheat production and food security. Most experts believe it eventually will reach the US where most barley and wheat varieties are highly susceptible. The threat to world food security and the US economy from this disease has not diminished.

Why does this budget propose to eliminate ARS funding of \$308,000 at St. Paul, Minnesota which supports the agency's lead scientists working on African Stem Rust?

Answer. The 2009 Budget proposes to eliminate all (\$41 million) ARS earmarked funding, including \$308,000 at the Cereal Disease Laboratory at St. Paul, Minnesota. The Department has proposed termination of all the ARS earmarks because they lack the programmatic control necessary to ensure quality as well as relevance to the core mission of ARS. Within the total proposed for ARS, the 2009 Budget includes \$944,000 to continue priority wheat stem rust research.

In fiscal year 2008, the Cooperative State Research, Education and Extension Service (CSREES) plans to fund 1–2 competitive grants totaling \$248,000 for aerobiology modeling of Ug99 for assessing potential pathways, timing of incursion and to support rust surveillance. An additional \$20,000 in Hatch Act funds will support wheat stem rust research. In fiscal year 2009, CSREES estimates \$20,000 in Hatch Act funds will support wheat stem rust research.

Question. How does USDA propose to address the African Stem Rust threat?

Answer. USDA-ARS is leading a national cereal rust research effort and is making key contributions to supporting international cooperative efforts through the Global Rust Initiative to address the new African wheat stem rust. ARS scientists are developing diagnostic tests for rapid identification of the disease should it enter U.S. borders and are contributing to monitoring and surveillance. Additionally, ARS is also developing and testing several new techniques that show promise in monitoring of wheat stem rust epidemics and for characterizing new races of cereal rust pathogens. A set of microsatellite DNA markers for the stem rust fungus has been developed. These markers are useful in tracing the geographical origins of new races

of stem rust. Seedling evaluations are being conducted against African stem rust races to test the susceptibility of U.S. wheat varieties.

In fiscal year 2008, USDA-CSREES plans to fund 1–2 grants for aerobiology modeling of Ug99 for assessing potential pathways, timing of incursion and to support rust surveillance.

FOOD AID “SAFE BOX”

Question. Both the House and Senate versions of the farm bill contained language creating a “safe box” for developmental food aid resources. The language would essentially mandate that a certain amount of food aid resources be used for developmental programs and would not allow them to be diverted to cover emergency needs.

In your opinion, what are some issues that may arise if similar language is included in a Farm Bill?

Answer. Adoption of such a proposal would happen at the worst possible time as our emergency food aid is being seriously affected by rising commodity and transportation costs. Our capacity for emergency assistance has already been diminished by about \$265 million to meet higher-than-anticipated commodity and freight prices in fiscal year 2008.

The hard earmark for non-emergency monetization food aid in the House and Senate versions of the farm bill will put millions of lives at risk and undermine our ability to prevent famine. The average level of non-emergency monetization food aid to Private Voluntary Organizations over the course of the last two farm bills has been approximately \$360 million. Reserving a significantly higher level of funding to be used solely for non-emergency programs as under consideration in the Farm Bill encroaches and effectively cuts funds for emergency feeding, where food is used to feed hungry people in dire situations.

This set-aside would create a funding shortfall that cannot be filled through other sources. The timing involved in requesting and Congressional approval of supplemental appropriations is unpredictable and untimely. The Bill Emerson Humanitarian Trust holds much lower levels than 5 years ago and does not have sufficient resources to cover emergency needs over the 5-year life of the next Farm Bill.

Question. What would this mean for the emergency needs throughout the world?

Answer. The hard earmarks for non-emergency monetization food aid in the House and Senate versions of the Farm Bill will put millions of lives at risk and undermine our ability to prevent famine.

Question. Would the administration support waiving such a provision?

Answer. The administration strongly opposes a hard earmark for non-emergency food aid. There is limited funding available to meet the highest priority foreign assistance needs, including humanitarian assistance. The administration needs to have the flexibility to prioritize funding to meet the most critical needs.

WIC MONTHLY REPORT AND FISCAL YEAR 2009 BUDGET

Question. In the report accompanying the final fiscal year 2008 appropriations bill, the Committee requested monthly reports on the amount necessary to fund the WIC program in fiscal year 2009. The reason the reports were requested is to hopefully avoid the situation we had during the fiscal year 2008 appropriations process where the subcommittee had to provide \$633 million above the President’s request and never heard a word from the Department that WIC needs had increased.

The reports were to include projections for food costs and participation and clearly explain how those projections differ from the assumptions made in the budget request and impact the WIC program in fiscal year 2009. The first report the Committee received was not only 2 months late but woefully inadequate. The second report was significantly improved, but still did not provide an assessment of what current participation trends and food costs mean for the fiscal year 2009 budget. For example, the Department leads the Committee to believe that the fiscal year 2009 WIC budget may be inadequate by stating that “reported participation estimates are higher than anticipated,” and food costs have increased more than expected. However, the report does not go on to explain whether the Department believes these increases are an anomaly or a real issue that may need to be addressed. Surely, the Department is capable of making a professional judgment about a \$6 billion program. Given that WIC is one-third of this subcommittee’s discretionary budget, the lack of information being provided is disappointing.

Why has the report been delayed? Do you think the level of detail in the report provided to the Committee adequately reflects what was requested?

Answer. I want to assure you that we take seriously our obligation to provide reports to Congress. The President’s Budget request released in February provided

participation and food cost data as requested. We have also provided reports on March 4 and April 4, 2008. We remain committed to working with Congress to provide monthly data regarding current participation levels and monthly food costs, as requested.

Question. What does the statement “reported participation estimates are higher than anticipated” mean? Is this an anomaly or do you think we should be concerned that the fiscal year 2009 request for WIC is not adequate?

Answer. The phrase reported participation estimates are higher than anticipated means that year to date reported program participation suggests that the annual average participation level for the WIC Program will be higher than was projected in, and supported by, the fiscal year 2008 budget.

The President’s fiscal year 2009 budget request of \$6.1 billion can support an average monthly program participation level of approximately 8.6 million persons in fiscal year 2009. This level of participation can be maintained as a result of savings accruing from the proposed cap on the WIC administrative grant per participant (\$145 million) and an increase in estimated available prior year resources from fiscal year 2008.

USDA will continue to closely monitor WIC Program performance including trends in participation and food costs. This information, in conjunction with revised economic projections for fiscal year 2009, will permit the Department to assess the adequacy of the President’s fiscal year 2009 budget request. This assessment will be made in conjunction with the annual Mid-Session Review (MSR) of the President’s budget. Results of this evaluation will be communicated to the Congress when the President’s MSR review is released and we will keep the committee informed through the regular monthly reporting process.

FARM SERVICE AGENCY IT SYSTEM

Question. Mr. Secretary, at this time last year, I was in this room speaking with your predecessor about the major problems with the IT system of the Farm Service Agency and the plans to upgrade and maintain the system. Can you tell us what work has been done over the past year to achieve this?

Answer. There are two projects that are moving forward in parallel: a modernization project and a stabilization project. I will provide a description of both of these for the record.

[The information follows:]

The modernization project has received business case approval to implement a commercial, off-the-shelf software solution. Since last year, USDA has developed MIDAS foundational requirements for governing an “enterprise” software acquisition of this type; USDA has hired a full-time program manager; and we are currently conducting Lean Six Sigma analysis of our USDA Service Center operations. USDA is positioning itself to be ready to move forward into the acquisition phase as soon as funding becomes available.

The stabilization project has focused on reinforcing the elements of our Common Computing Environment infrastructure that failed to host our Web-based software applications successfully. In January 2007, USDA Service Centers experienced a widespread outage with system error messages saying “page cannot be displayed.” We have taken specific action to replace firewall technology, increase telecommunication bandwidth capacity, isolate inefficient application software and data bases accesses, install modern monitoring tools within the environment, and establish independent testing environments. Congress provided \$37.5 million for this project in fiscal year 2007 including funding for the costs of implementing an independent data warehouse capability. The data warehouse will allow USDA to isolate reporting queries from our transactional, production data bases that carry on the day-to-day delivery processes in order to improve the speed of transactions and improve information security.

Question. What is the status of the system today?

Answer. A minimum level of service delivery has been restored to Web-based software applications. USDA has been fortunate that the level of program activity has been very low due to high commodity prices. Even with low demand for the automated systems, we are still experiencing about 6 hours of unplanned outages per month. This is down considerably from a year ago when unplanned outages approached 16 to 20 hours per month.

Question. What are your plans to secure funds to perform the work you have outlined?

Answer. USDA has provided the authorizing committees with legislative language to amend the CCC Charter Act to allow for the collection of user fees to fund the modernization and stabilization projects.

NATIONAL ANIMAL IDENTIFICATION SYSTEM

Question. In the report accompanying the final fiscal year 2008 appropriations bill, the Committee expressed concern over the direction of the National Animal Identification System (NAIS), especially given the amount of funding provided for the program. The total amount of funding dedicated to NAIS through fiscal year 2008 is more than \$127 million. The fiscal year 2009 budget proposes an additional \$24.144 million. I appreciate the efforts of USDA to finally develop a business plan for the system last year. However, the budget does not outline how the requested funding will be spent or how the request fits into the plan. The budget only States that this is the amount the program needs to carry out essential activities, without explaining what those “essential activities” are. I think we can agree that \$24 million is a significant budget request that warrants more justification.

Please explain in detail how the requested funding will be spent and how the funded activities fit into the business plan.

Answer. USDA will use the \$24 million included in the fiscal year 2009 budget request for the following NAIS activities: \$3.5 million for information technology (IT) maintenance and development, \$10.8 million for cooperative agreements, \$800,000 for communications and outreach, and \$8.9 million for national program oversight and field activities. Specific short- and long-term milestones related to each of these categories will be provided to the Committee in the coming weeks. Additional information about the plan is provided for the record.

[The information follows:]

For efficient, effective disease containment, animal health officials need the data required to trace a disease back to its source and limit potential harm to animal agriculture. USDA’s overall objective is to establish an animal tracing infrastructure that will retrieve traceback data within 48 hours of disease detection. The speed with which animal health officials can access critical animal location and movement information determines the timeliness—and effectiveness—of the disease control and containment effort. USDA defines the retrieval of traceback data within 48 hours as optimal for effective disease containment. This type of effective response can result in huge cost savings to the government in terms of eradication efforts, and producers benefit in terms of property and marketability of livestock. USDA will work toward this long-term objective by implementing immediate, short-term strategies, as outlined in USDA’s Business Plan to Advance Animal Disease Traceability. Through the strategies, it is USDA’s goal to facilitate increased participation in the NAIS, bolster the existing animal disease response network, reduce the amount of time required to conduct and complete a disease investigation, and continue to build critical Federal-State-industry partnerships necessary for animal disease control and eradication success.

Through existing fiscal year 2008 funds and requested fiscal year 2009 funds, USDA plans to accomplish the following:

- Nearly 100 percent traceability will be achieved for the commercial poultry and swine industries (identification of commercial production units in the required radius of a disease event) with support and cooperation of the National Poultry Improvement Plan and National Pork Board respectively;
- Through continued integration of the National Scrapie Eradication Program with NAIS, over 90 percent of the sheep breeding flock will be identified to their birth premises and approximately 90 percent of the breeding population of goats will be traceable to their birth premises within 48 hours of a disease event;
- Over 90 percent of competition horses will be identified through NAIS compliant processes through the integration of equine infectious anemia testing requirements and interstate certificates of veterinary inspection;
- Over 70 percent of the commercial cattle population born after 2008 will be identified with NAIS compliant identification methods;
- Critical Location Points will be registered in the National Premises Information Repository (nearly 90 percent of the 2,750 county and State fairgrounds and racetracks; 100 percent of the 98 import/export facilities; 70 percent of the 3,388 markets and dealers, including public auctions; nearly 100 percent of the 3,097 harvest facilities, including renderers and slaughter plants; nearly 100 percent of the 34 semen collection and embryo transfer facilities; nearly 90 percent of the 8,000 veterinary clinics (large animal practices that receive livestock); and 100 percent of the 880 licensed food waste swine feeding operations);
- The use of NAIS-compliant animal identification number (AIN) devices will be initiated in breed registry programs;
- The premises identification number will be incorporated in the Dairy Herd Improvement Association’s administration of the National Uniform Eartagging Numbering System;

- The electronic brucellosis vaccination and testing system will be fully developed and implemented;
- The NAIS-compliant premises identification number format will be incorporated into existing Federal disease program activities (e.g., vaccination, herd testing, emergency response, etc.); and
- The full integration of approximately 20 animal tracking databases maintained by States and private organizations with the Animal Trace Processing System will be achieved.

CONSERVATION RESERVE PROGRAM (CRP)

Question. Secretary Schafer, can you please explain how the recent increases in commodity prices are affecting enrollment in the CRP program? In your opinion, how will the changes you are seeing affect the program in the years to come? Are there other conservation programs that are showing significant impact from rising commodity prices? What if anything is the Department doing to protect these programs?

Answer. It is still somewhat early to say definitively how recent crop price increases have impacted CRP enrollment. First, we did not conduct a general sign-up last year and do not plan to conduct one this year, so we do not know to what extent interest may have declined. However, continuous sign-up enrollment has actually increased. Recent continuous sign-up enrollment is as follows:

Fiscal Year	Through March	For the Fiscal Year
2006	110,000	348,000
2007	88,000	538,000
2008	148,000	(¹)

¹ To be determined.

It is difficult to assess whether enrollment is up due to re-enrollments of expiring contracts or due to continued interest in continuous sign-up.

We are monitoring the extent that participants have been dropping out of the program prior to normal contract terminations. Reports from States indicate that about 130,000 acres were withdrawn between October 2007 and March 2008, but we do not know what future dropouts will be. About the same number of general sign-up acres were “lost” during the entire 2007 fiscal year.

It is also hard to predict enrollment in the years to come. Our baselines have projected that enrollment will decline, at least in the short term. In the fiscal year 2009 President’s Budget, enrollment is projected to decline from 36.8 million acres on September 30, 2007 to 34.8 million acres on September 30, 2008, and to 34.2 million acres on September 30, 2009. Because there will not be a general sign-up this year, the 2009 enrollment is now expected to be 34.0 million acres, a 2.8 million acre decline from 2007 levels.

We anticipate the Conservation Technical Assistance Program and the Environmental Quality Incentives Program (EQIP) will see increased attention as acres expire from CRP and need working lands assistance. Producers who wish to enroll in commodity programs on these expiring acres will require a Highly Erodible Land Compliance plan from NRCS. They may also need or wish to enroll in EQIP on these acres.

We anticipate that higher farm income associated with increased commodity prices will result in increased conservation investments by producers, thus increasing demand for existing working lands programs, such as EQIP and the Wildlife Habitat Incentives Program.

We want producers to have successful farming enterprises in conjunction with a healthy environment. In order to prepare for the changing economic picture of farming for energy crops, the administration has proposed a bioenergy reserve. The idea is to encourage production of energy crops such as switchgrass on CRP lands that are well suited and thereby mitigate potential shifts from CRP to cropping where it may not be advisable.

CRP is partially protected from rising crop prices through its rental rate setting policies. In this process, rental rates are set at an average of the 3 most recent years’ market rental rates for the area, adjusted for each individual soil’s productivity. Rates are periodically updated.

CRP also provides incentives for selected high-priority continuous sign-up enrollments. Practices such as buffer strips are eligible to receive a one-time signing incentive (SIP) of \$100 per acre, a practice incentive (PIP) equal to 40 percent of the practice’s establishment costs, and an annual incentive of 20 percent of the annual

rental payment. Additional incentives are also provided through the Conservation Reserve Enhancement Program (CREP). In addition to providing SIPs and PIPs, many CREPs pay higher annual incentives.

WIC FISCAL YEAR 2008 BUDGET

Question. Secretary Schafer, escalating food costs and participation has dramatically increased the amount necessary to fully fund the WIC program. With the information available to the subcommittee at the time, we provided an increase of \$633 million above the President's request for fiscal year 2008. WIC program funding is now over \$6 billion annually. Even with the increase, I am concerned that funding for WIC in fiscal year 2008 may not be sufficient. Do you believe that funding for the WIC program in fiscal year 2008 is adequate?

Answer. Analysis of year-to-date WIC participation and food cost data suggests that program costs for fiscal year 2008 will exceed levels anticipated in the President's fiscal year 2009 Budget and funded by the fiscal year 2008 Consolidated Appropriations Act. Our current analysis of fiscal year 2008 program performance indicates that without additional funds for fiscal year 2008, the program would have a shortfall, even after the release of the remaining \$150 million of contingency resources.

Question. If not, are you addressing the shortfall?

Answer. Yes. I am reviewing options that include transferring funds from the Food Stamp Program contingency reserve to the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) to address funding shortfalls in that program.

FSIS BUDGET

Question. In December 2007, the Office of Inspector General released a report on the Food Safety and Inspection Service's plan to implement risk based inspection. In the report, OIG questioned whether "FSIS has the systems in place—to provide reasonable assurance that risk can be fully assessed." OIG identified several specific concerns, including FSIS' assessments of establishments' food safety systems, security over IT resources, and data management concerns.

FSIS agreed with all 35 of the recommendations in the report, and began work on implementing systems changes, including building a new IT system called the Public Health Information System (PHIS). The actions proposed by FSIS in response to the report seem to be very costly. However, the budget does not propose an increase to implement these items, and I'm curious from where the money for the current work on PHIS and other programs is coming.

Is FSIS shifting money from current activities to address the OIG recommendations? If so, which activities and how is this affecting the performance of those activities?

Answer. FSIS has not shifted money from current activities to address the OIG recommendations on implementing the PHIS. In September 2007, FSIS awarded a \$15 million contract for PHIS that will enhance our domestic and international inspection functions, export compliance certification functions and our agency-wide predictive analytics capability. The funding was made available at the end of the fiscal year as a result of delays in the hiring process. This contract will cover activities in fiscal year 2008 and fiscal year 2009.

Question. Annually, how much would it cost to address the OIG recommendations and is this amount included in the fiscal year 2009 budget?

Answer. The major cost associated with implementing the OIG recommendations is for strengthening the infrastructure and the development and deployment of PHIS. All fiscal year 2009 funding in support of PHIS and the other ongoing activities identified in the management response to OIG's recommendations is included in the President's budget.

FSIS HUMANE METHODS OF SLAUGHTER

Question. The Hallmark/Westland meat recall that took place in February was the largest meat recall in history and was initiated after it became evident that the company was abusing cattle and had slaughtered cattle that could not stand or walk, commonly known as "downer" cattle, without appropriate inspection. Many people are concerned how the egregious activities that took place at the Hallmark/Westland facility went unnoticed by Food Safety and Inspection Service inspectors. It has been suggested that we enhance USDA inspection and increase oversight of humane handling at slaughter facilities, perhaps by enacting new legislation or more effectively targeting resources.

What does the Department need to make sure that incidents like the Hallmark/Westland don't happen again? Does the Food Safety and Inspection Service need more staff, statutory authority, or staff training?

Answer. The investigation being led by OIG with support from FSIS and AMS is ongoing. Once the investigation has concluded, we will have additional information that, along with the results of the additional verification activities, will determine the actions for FSIS oversight, inspection and enforcement that may be required.

EXPORT CREDIT GUARANTEE PROGRAM

Question. Mr. Secretary, reports in the press indicate that social unrest is building in countries such as Egypt, Morocco, Malaysia, and the Philippines over the rising price and declining availability of basic foodstuffs such as wheat and rice. The GSM-102 export credit guarantee program at USDA is specifically designed to facilitate the purchase of US agricultural commodities by these middle income countries during periods of challenging commodity markets and credit availability.

Unfortunately, to date USDA has made available only \$1.23 billion in guarantees for fiscal 2008. This is below the current program need, as evidenced by the fact that applications for approximately twice that amount were received within days of the guarantees being made available. In addition, current law requires that \$5.5 billion in guarantees be made available each fiscal year. Under the current Farm Bill extension through April 18 of this year, it would appear that at least \$2.86 billion should have already been made available by USDA. Given the current environment, even this amount would likely be below the actual program need.

Can you tell the Committee when USDA will make GSM guarantees available to meet the rising demand for the program and the statutory minimum?

Answer. The administration has treated GSM-102 the same as other programs that are affected by Farm Bill proposals. USDA has made resources available on a proportional share basis consistent with program levels reflected in the 2008 column of the fiscal year 2009 President's Budget. The sharp increase in program demand due to changing world economic conditions and food shortages was not foreseen at the time the 2009 President's Budget was submitted. The administration urges Congress to complete action on a Farm Bill the President can sign as soon as possible. That action will ensure full-year programming for GSM-102.

QUESTIONS SUBMITTED BY SENATOR ARLEN SPECTER

COMMODITY SUPPLEMENTAL FOOD PROGRAM

Question. This is a follow-up question regarding the Commodity Supplemental Food Program (CSFP). It is my understanding that CSFP received a 33 percent increase in funding for fiscal year 2008 to compensate for increased food prices and to allow more program participants. Please provide an analysis on where the increased funding was directed. Please also provide a summary of supply vendor invoices for CSFP product over the last year, in order to account for the increase in food prices and participants? Finally, has USDA used bartered items and free/donated items for the program?

Answer. The \$139.7 million appropriation, after rescission, was not sufficient to maintain caseload at the 2007 level due to significant increases in food costs, a substantial reduction in the level of surplus or "free" commodities available to support the program, and a significant increase in the legislatively mandated administrative grant per caseload slot. A total of 473,473 caseload slots were allocated in 2008, slightly lower than the 485,614 slots assigned last year.

In agricultural markets, significantly less food has been, and for the foreseeable future, will be purchased under agriculture support programs and donated for use in domestic nutrition assistance programs, including the Commodity Supplemental Food Program (CSFP). Thus, without the customary levels of donated, or so-called "free" foods, a greater proportion of the cost of food packages in fiscal year 2008 was covered by appropriated funds than was the case in fiscal year 2007. For women, infants, and children, the appropriation must fund \$24.27 of the average monthly cost of the food package (up from \$21.92 for fiscal year 2007), and \$18.15 of the average monthly cost for seniors (up from \$16.64), an increase of over 10 percent and 9 percent respectively.

Two examples illustrate the effect of rising food costs on the CSFP food package. In fiscal year 2007, nonfat dry milk was available as free to the program due to abundant supplies of surplus. However, as of mid-fiscal year 2008, the Food and Nutrition Service (FNS) will have to pay an estimated \$1.96 per pound to obtain this product. Furthermore, in fiscal year 2007, macaroni cost FNS \$0.41 per pound. The

cost for this item has risen to \$0.79 per pound in fiscal year 2008, an increase of over 90 percent.

In order to maximize food dollars through economies of scale, USDA purchases CSFP commodities in combination with TEFAP and the Food Distribution Program on Indian Reservations. Therefore, invoice data are aggregated across all three programs, making CSFP-specific invoice sheets unavailable.

With respect to bartered foods available through the Department's Stock-for-Food Initiative, approximately \$10 million was distributed to CSFP in order to maintain program participation that was at risk because of funding difficulties.

COLONY COLLAPSE DISORDER

Question. In the fiscal year 2008 Omnibus Appropriations legislation that was signed into law on December 26, 2007, language was included that stated: "Within available resources, the Department is encouraged to take appropriate actions, consistent with the directives in this explanatory statement, to address areas of crop and livestock protection, foods (including food allergens), nutrition, colony collapse disorder, and other areas included in the President's budget for these research needs." Please provide specific information on the amount of funds that USDA has directed to colony collapse disorder (CCD) research and how these funds were used.

With agriculture being PA's largest industry, this issue is important to my home State. Further, I am aware that the Pennsylvania State University has been a key leader and partner with the Agricultural Research Service in CCD research. It is my understanding that the United States is losing about 35 percent of the bee colonies this year as opposed to a 31 percent loss rate last year. There has been effort by Congress to help address this major concern in the long-term through the Farm Bill. However, how does USDA plan on addressing CCD and other pollinator threats in the near future? Does the Department plan on utilizing its authority under CCC or Section 32 to direct funds to emergency assistance for beekeepers or to provide much needed increased funding for research to address this crisis?

Answer. The Department is aware of the devastating effects of colony collapse disorder (CCD) and is utilizing all research funds available to address the issue. Currently, the Department does not plan to use either CCC or Section 32 funds to provide emergency assistance to beekeepers or provide additional funding for research. Information on USDA-funded projects is provided for the record.

[The information follows:]

For comparison purposes, funding information is provided for fiscal years 2006, 2007, and 2008. CSREES provides all funds for multi-year competitive grants in the first year of their existence and does not show recurring costs.

In fiscal year 2007, ARS base funding for honey bee health increased \$41,900. ARS also allocated \$200,000 of fiscal year 2007 temporary funding to CCD research at Beltsville, Maryland. CSREES grants awarded in the National Research Initiative (NRI) and the Critical and Emerging Issues (CEI) programs for honey bee health research increased \$463,432.

In fiscal year 2008, the Agricultural Marketing Service (AMS) will begin testing honey for pesticide residues on a fee basis as part of its Pesticide Data Program. ARS funding for CCD/honey bee health increased \$123,400. Additionally to base-funded projects, a critical new project is the new ARS Areawide Project on Honey Bee Health, which is being supported by temporary funding of \$670,000 in fiscal year 2008. CSREES will initiate several new projects and increase funding by \$1,497,843.

FISCAL YEAR 2006, 2007 AND 2008 FUNDING BY AGENCY

Agency	Name of Project	Location	Funding in fiscal year 2006	Funding in fiscal year 2007	Funding in fiscal year 2008
AMS	Survey of Honey in Consumer Sized Containers at the Retail Level	Pesticide Data Program	(1)	\$260,000 (2)	\$260,000 (2)
ARS	Preservation of Honey Bee Germplasm	Beltsville, MD	\$382,200	384,300	381,500
ARS	Managing Diseases and Pests of Honey Bees to Improve Queen and Colony Health.	Beltsville, MD	1,679,200	1,688,300	1,676,200
ARS	Improving Crop Pollination Rates by Increasing Colony Populations and Defining Pollination Mechanisms.	Tucson, AZ	1,124,300	1,130,700	1,122,800
ARS	Pests, Parasites, Diseases, and Stress of Honey Bees Used in Honey Production and Pollination.	Weslaco, TX	1,879,300	1,890,500	1,877,300
ARS	Breeding, Genetics, Stock Improvement, and Management of Russian Honey Bees for Mite Control and Pollination.	Baton Rouge, LA	1,339,700	1,346,100	1,336,800
ARS	Development and Use of Mite-Resistance Traits in Honey Bee Breeding ..	Baton Rouge, LA	955,000	960,000	953,000
ARS	Biochemistry of Pest and Beneficial Insects and Interactions with Host Plants and Natural Enemies.	Fargo, ND	64,600	65,000	64,500
ARS	Chemistry and Biochemistry of Insect Behavior, Physiology and Ecology ..	Gainesville, FL	208,400	209,700	208,200
ARS	Area-wide Project on Honey Bee Health	Various	(1)	(1)	670,000
CSREES, NRI	Time-Memory Control of Honey Bee Foraging Behavior	East Tennessee State Univ	183,000	(1)	(1)
CSREES, NRI	Molecular Mechanisms of Honey Bee Mating	North Carolina State University ..	355,000	(1)	(1)
CSREES, CEI	Colony Collapse Disorder: Initiation of a National Response	University of Illinois	(1)	60,000	(1)
CSREES, CEI	Colony Collapse Disorder: Determination of the Roles of Pathogens in Unique Colony Losses of Honey Bees and Funding of Workshop.	Pennsylvania State University	(1)	51,932	(1)
CSREES, NRI	The importance of intracolony genetic diversity for foraging success in honey bee colonies.	Cornell University	(1)	206,000	(1)
CSREES, NRI	Modulation of social interactions by disease in honey bees	North Carolina State University ...	(1)	337,000	(1)
CSREES, NRI	Assessing the mating health of commercial honey bee queens	North Carolina State	(1)	346,500	(1)
CSREES, CEI	Unraveling Impacts on Honey Bee Health of Agricultural and In-Hive Pesticides.	Pennsylvania State University	(1)	(1)	89,996
CSREES, CEI	Impacts on Honey Bees and diseases from In-hive Miticide Use	Pennsylvania State University	(1)	(1)	89,987
CSREES, CEI	Assessment of Miticide Use of Honey Bee Longevity and Colony Health ..	Clemson University	(1)	(1)	90,000
CSREES, NRI	Toxicogenomics of Apis mellifera	University of Illinois	(1)	(1)	340,000
CSREES, NRI	Analysis of genes and gene regions affecting agronomically important honey bee behaviors..	Purdue University	(1)	(1)	479,134
CSREES, NRI	Genome Informatics for Agriculturally Important Hymenoptera Species and Their Pathogens.	Georgetown University	(1)	(1)	410,158

CSREES, NRI	Undetermined	Undetermined	(1)	(1)	1,000,000
Total / AMS	(1)	260,000	260,000
Total / ARS	7,632,700	7,674,600	7,798,000
Total / CSREES	538,000	1,001,432	2,499,275
Total	8,170,700	8,936,032	10,557,275

¹ N/A.

² Estimate.

Additional/Future Projects

USDA developed a CCD Action Plan in July 2007 based on recommendations from the CCD Steering Committee, which is composed of academic, private, and Federal scientists. The Action Plan outlines a strategy for current and future needs to address the CCD crisis, involving four main components:

- Survey and data collection;
- Analysis of samples;
- Hypothesis-driven research; and
- Mitigation and preventative action.

Within each topic area, the status of ongoing CCD research and future plans are outlined, as well as the organization(s) involved in the effort. Both ARS and CSREES are using existing funding authorities to support these research, extension, and education projects. The accomplishments of current research will be used to gauge the direction and prioritization of future research.

In addition, in 2007 CSREES oversaw the formation of a Multi-State Research/Extension Committee titled “Sustainable Solutions to Problems Affecting Honey Bee Health” which will address CCD-related objectives that will complement those of ARS scientists and other CSREES-funded projects (e.g., NRI-CAP, and CEI). The Committee is administered by the North Central Region, funded by Hatch Multi-State allocations to participating States and also supported in part by Federal Smith-Lever appropriations to States for the Cooperative Extension System. Future research needs to be addressed by this committee are complementary and compatible with research priorities outlined in the Action Plan and by ARS.

Looking to fiscal year 2009 and beyond, ARS has identified a number of projects, in varying levels of priority, to address CCD and honey bee health. Needs include developing artificial diet-based systems to increase pollination for specialty crops impacted by CCD (Tucson, Arizona); determining the role of pathogens and other stress factors in CCD and mitigating their effects (Beltsville, Maryland); reducing colony stress through integrated pest management (Tucson); developing genetic resistance to CCD (Baton Rouge, Louisiana); and treating and mitigating CCD (Beltsville). To fund these efforts, the President’s 2009 budget requests an increase of \$780,000 for ARS.

FOOD SAFETY REGULATIONS

Question. This is a follow-up to my food safety question. Does USDA have adequate authority and resources to implement the food safety laws and regulations? Further, it is my understanding that in 2007, there were a combined total of more than 70 new rules, notices, directives and regulations issued or finalized by FSIS. Please describe what USDA is doing to assist meat, poultry, and egg firms with compliance when they have problems and when the Department issues new regulations? Is USDA effectively training its workforce to implement these regulations?

Answer. FSIS has adequate authority and resources to enforce the food safety laws and regulations under its purview.

FSIS takes its outreach mission very seriously. In March 2008, FSIS announced the formation of the new Office of Outreach, Employee Education and Training, to provide consolidated access, resources and technical support for small and very small plants to better assist them in providing safe and wholesome meat, poultry and processed egg products. This program area will also ensure that all FSIS personnel have the necessary training to effectively carry out their assigned duties.

For FSIS to ensure public health protection through food safety, it not only needs to verify that small and very small plants, establishments that comprise over 90 percent of the plants under FSIS’ jurisdiction, are producing safe food but to reach out to those plants to make sure that they fully understand their responsibilities and how to achieve them. Thus, for small and very small plants, the agency launched a targeted Web page and launched a monthly publication called Small Plant News which includes articles with up-to-date technical information and guidance, resource materials, and FSIS rules and regulations as well as the most common questions asked and answers that apply to establishments’ operational practices. All of this is in addition to outreach visits, net meetings, information sessions, and numerous regulatory education sessions.

In 2007, FSIS launched askFSIS, an outreach effort for stakeholders. askFSIS is a Web-based feature designed to help answer technical and policy questions regarding inspection and public health regulations 24 hours a day. The new interactive feature provides answers on technical issues in more depth than the standard list of “frequently asked questions” available through FSIS’ Web site. It allows visitors to seek answers on topics such as exporting, labeling and inspection-related policies, programs and procedures, as well as submit new questions to be added to the sys-

tem. This new Web-based tool has received high customer satisfaction marks from our stakeholders, and the system already has nearly 800 questions and answers.

In the wake of ongoing, progressive policy changes, FSIS ensures that inspection program personnel and the industry fully understand FSIS rules, regulations, directives, and notices. The agency is developing a strong, ongoing strategy to evaluate the success of its training program. Through the In-Plant Performance System, AssuranceNet management controls, and reports from district analysts, the agency is ensuring that inspection program personnel are doing their jobs correctly, are held accountable, and have appropriate workloads and supervision.

HALLMARK/WESTLAND RECALL

Question. Further, this question is specific to the Hallmark/Westland recall of 143 million pounds of fresh and frozen beef products. Was there an alternative response that the Agency could have had to address the regulatory concern and not pursue an event that potentially confuses consumers? Possibly a market withdrawal? Finally, with much of the meat used for the School Lunch Program, can a USDA inspected plant sell meat to the program if it tests positive for *E. coli*?

Answer. The recall action was deemed necessary because the establishment did not comply with FSIS regulations. The recall was designated Class II because the probability is remote that the recalled beef products would cause adverse health effects if consumed. This recall designation is in contrast to a Class I recall, which is a higher-risk health hazard situation where there is a reasonable probability that the use of the product will cause serious, adverse health consequences or death. A USDA inspected plant can continue to sell raw materials or finished products to the National School Lunch Program as long as the raw materials or finished products are not the ones that tested positive for *E. coli*.

U.S. BEEF PRODUCTS

Question. Several significant beef markets and U.S. trading partners are still partially or completely closed to U.S. beef products. This stonewalling has persisted for more than 3 years. Having open beef markets is important to Pennsylvania's, and the Nation's, beef producers. According to the PA Department of Agriculture, the beef industry contributes about \$1.9 billion annually to the economy. What do you plan to personally do as Secretary to address these remaining bans on all or part of American beef?

Answer. USDA is working actively and constructively to re-open many international markets that closed as a result of the finding of bovine spongiform encephalopathy (BSE) in the United States in late 2003. Science and sound risk management principles remain the underpinnings of our consistent approach to all trading partners. As evidence of our success, U.S. beef and beef product exports rebounded to over \$2.6 billion in CY 2007, equal to almost 70 percent of trade in 2003, before BSE was identified in the United States. Last year, the World Organization for Animal Health (OIE) designated the United States as a "controlled risk" Nation for BSE, reaffirming the effectiveness of the U.S. regulatory system to protect the food supply from BSE. With this rating in hand, we are stepping up our efforts to reopen markets for U.S. beef based upon science and internationally recognized standards. Indonesia, Barbados, and the Philippines are some of the countries that have fully reopened to U.S. beef and livestock since the United States achieved "controlled risk" status.

QUESTIONS SUBMITTED BY SENATOR LARRY CRAIG

FOOD SAFETY INSPECTION USER FEES

Question. I appreciate USDA's dedication to ensuring the safety of our food supply. As evidenced by the Hallmark/Westland violation, we have some work to do to improve the oversight of our inspection system. However, I am concerned about the proposal to add another \$92 million in new user fees from meat, poultry and egg products establishments.

Why would USDA propose to have the packers pay for their own food safety inspections when this is clearly the role of government? Are you concerned that these additional costs would be passed down to cattle producers?

Answer. The legislative proposal to create new user fees would transfer a portion of the cost of mandatory Federal inspection services to the industries that directly benefit from them, and would result in savings to the taxpayer. If any costs were passed down to cattle producers, the amount would be extremely small.

NATIONAL VETERINARY MEDICAL SERVICE ACT

Question. The National Veterinary Medical Service Act (NVMSA) was signed into law in December of 2003. This program has been funded through appropriations for several years now, yet USDA has failed to implement this veterinarian loan repayment program as it was designed. If implemented, this program would extend veterinary services to rural and other underserved areas that struggle to attract young vets.

Does USDA recognize that there is a shortage of veterinarians in the United States, especially large animal practitioners in rural areas? Four years after passage of the National Veterinary Medical Services Act, what has USDA done to implement the full veterinarian loan repayment program? What do they need to move forward to implement it? Please provide for the Committee a timeline for when USDA plans to write the full program rules.

Answer. USDA is aware of the shortage of veterinarians in the United States and recognizes that this shortage extends to virtually every aspect of the practice of veterinary medicine, including large animal practice, epidemiology, and food safety in both private and government employment. Further, we accept the validity of studies that show this shortage is growing.

As you note, NVMSA was enacted in 2003. Funds for this program were first appropriated in fiscal year 2006. The Cooperative State Research, Education, and Extension Service (CSREES) conducted a review of program options and considered input from other Federal agencies, veterinary associations, and the veterinary educational community. CSREES developed an implementation plan that took advantage of already existing Office of Personnel Management student loan programs and regulations. On March 19, 2007, a final rule was published in the Federal Register that permitted CSREES to implement this phase of the NVMSA program. This rule specified that the USDA Food Safety and Inspection Service (FSIS) would utilize a portion of NVMSA funding as hiring incentives, to pay the educational loans of new hires. This strategy which included FSIS supplementing the NVMSA incentive by contributing a matching recruitment bonus, allowed USDA to reach the largest number of eligible veterinarians in the shortest possible time frame.

To address other areas of veterinary shortage, CSREES is establishing a work unit that will involve both program and administrative employees with new staff hired to administer the NVMSA. Similarly, new processes and procedures will need to be developed and put in place, since the agency will be dealing with individual veterinarians instead of the universities that comprise its normal customer base. Simultaneously, CSREES will develop and publish the rule(s) necessary to fully implement this program.

Because CSREES has never delivered a program of this type and complexity targeted to individual recipients rather than established institutions, it is very hard to judge how much time will be required. As an estimate, we believe CSREES may be able to accept applications as early as the second quarter of fiscal year 2009 with the repaying of educational loans by the end of fiscal year 2009.

EXCLUSION OF POTATOES FROM WIC

Question. I understand that USDA published an interim final rule that expands the eligibility for the WIC program to include all fresh fruits and vegetables with the single exception of white potatoes. In contrast, I understand that WIC vouchers can currently be used to purchase fresh fruits and vegetables, including fresh potatoes, at farmer's market programs. It seems to me that fresh white potatoes, along with apples, bananas and carrots, are all popular vegetables which provide important nutrients critical to the diet of WIC participants.

Can you provide the Committee with the public policy and nutritional rationale for excluding fresh white potatoes from the expanded WIC voucher program for all other fresh fruits and vegetables? What is the rationale for excluding fresh white potatoes from the expanded WIC program while allowing the inclusion of other frequently purchased fruits and vegetables? Excluding fresh white potatoes from the expanded WIC program will require State agencies and retailers to develop administrative procedures to exclude those purchases. Can you please provide this Committee a description of the process and an estimate of the cost of compliance for the exclusion of a single fruit or vegetable from the program?

Answer. The changes to the WIC food packages were made based on scientific recommendations from the National Academies' Institute of Medicine (IOM). The IOM was charged with reviewing the nutritional needs of the WIC population, low-income infants, children, and pregnant, postpartum and breastfeeding women who are at nutritional risk, and recommending changes to the WIC food packages.

The restriction of white potatoes, as recommended by the IOM, is based on (1) food intake data indicating that consumption of starchy vegetables by the WIC-eligible population meets or exceeds the amounts suggested in the 2005 Dietary Guidelines for Americans for consumption of starchy vegetables; and (2) food intake data showing that white potatoes are the most widely consumed starchy vegetable.

There is no cost of compliance for the disallowance of a single fruit or vegetable from the WIC Program. WIC State agencies routinely, and as a part of normal business practice, determine what foods to include on their State WIC food lists from the list of Federally authorized WIC-eligible foods.

SUBCOMMITTEE RECESS

Senator KOHL. Our hearing will end at this time. Next week we will be discussing the FDA budget, and we look forward to continuing our dialogue. Thank you so much.

[Whereupon, at 11:15 a.m., Tuesday, April 8, the subcommittee was recessed, to reconvene subject to the call of the Chair.]